(A free translation of the original in Portuguese)

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Kroton Educacional S.A.

Parent company and consolidated financial statements at December 31, 2016 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.

Opinion

We have audited the accompanying parent company financial statements of Kroton Educacional S.A. ("Company"), which comprise the balance sheet as at December 31, 2016 and the statements of 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, 2016 and the consolidated statements of income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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, 2016, and the parent company's financial performance and the cash flows for the year then ended, as well as the consolidated financial performance and the cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

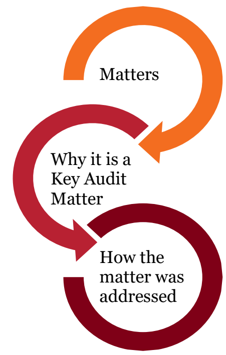
Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Parent Company and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Kroton Educacional S.A.

Key audit matters

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



Why it is a Key Audit Matter	How the matter was addressed in the audit

(a) Revenue recognition (Notes 2.22 and 29 to the financial statements)

The Company's revenue consists primarily of the provision of higher education (undergraduate) courses. This area required special attention and audit effort mainly due to the following aspects:

- The process of revenue recognition not only demands the existence of effective internal controls, but also a certain degree of judgment by management. This is significantly present in the evaluation of the probability of receipt of future monthly tuition fees, especially for students with financing, who are responsible for a significant part of the Company's revenues. This judgment directly affects the period in which revenues should be recorded in the financial statements.

- Due to various business combinations carried out by the Company in recent years, besides the characteristic of each business, in-class and distance learning (EAD), the billing process has been carried out through different technology systems, which demands greater effort to confirm that the significant information in these systems is fully reflected in the financial statements.

As an audit response, our approach included the following key procedures, among others:

(i) We selected samples of accounting entries recorded as revenue and confirmed their integrity in relation to the respective contracts signed with students, the registration documents and proof of receipt of the monthly tuition fees, among other documents applicable in the circumstances.

(ii) We selected samples of monthly tuition fees from students enrolled in the Student Financing Fund (FIES) and confirmed the student's adherence to the financing program and the regularity of the contracts. We also checked whether the corresponding revenues were recorded in the appropriate period, in view of the confirmation (approval) of the financing by the National Education Development Fund (FNDE).

(iii) We checked the operational effectiveness of certain internal controls which we considered significant, relating to student enrollment procedures.

(iv) Based on the information contained in the Company's computerized systems, which are used in the billing and tuition payment

Why it is a Key Audit Matter	How the matter was addressed in the audit
	processes, we applied procedures to reprocess the invoiced bases and their reconciliation with the accounting records. We believe that the procedures performed did not reveal inconsistencies in the completeness of significant information or in the correct period of revenue recognition.
(b) Impairment of intangible assets with indefinite useful lives (Note 14 to the financial statements)	
As a result of the business combinations carried out by the Company in recent years, intangible assets with indefinite useful lives, with an annual impairment assessment requirement, represent approximately 52% of the total balance of consolidated assets at this date. We paid particular attention to this area due to the significance of these assets, as well as the fact that the models used in the impairment tests involve a significant level of subjectivity and judgment by management. These judgments are based on assumptions that may be affected by future market events, especially those associated with the projected cash flows and discount rate used.	As an audit response, our approach included, among others, the following key procedures: We tested the estimates of future cash flows prepared by management, as well as the significant controls of this process. We compared future cash projections with the most recent version of business plans approved by Governance. We evaluated management's key assumptions for long-term growth rates by comparing them with economic and sector forecasts. With respect to the discount rate used, in our evaluation, we considered the cost of capital for the Company and comparable organizations. We also performed a sensitivity analysis in relation to the cash-generating units that presented recoverable value close to their net book value, considering the main assumptions to be higher or lower. We considered that the model and assumptions used by management are consistent to support the impairment test of intangible assets with indefinite useful lives.

Why it is a Key Audit Matter	How the matter was addressed in the audit

(c) Provisions for tax, labor and civil contingencies (Note 23 to the financial statements)

The provisions for contingencies established by the Company derive mainly from legal and administrative proceedings inherent in the normal course of its business, filed by third parties, former employees and public bodies, in addition to those arising due to the various business combinations carried out in recent years. Risk assessments and estimates of losses are prepared by management based on the evidence available and the opinions of the Company's internal and external legal advisors.

This area was specifically focused due to the fact that estimates and risk assessments involved judgments by management, in addition to the large volume of lawsuits and the amounts of the contingencies involving the Company. Part of the contingencies, arising from business combinations, are the responsibility of the former owners, which demands follow-up and control over the recovery of eventual disbursements due to materialized contingencies. Judicial proceedings can take a long time to be completed and involve complex discussions about the subject matters of each action, in accordance with current legislation. Changes in the assessments of the risks of loss of these proceedings may significantly affect the provisions established and the Company's results.

In response to risks identified, we performed the following main procedures:

(i) We questioned management and the internal lawyers about the criteria and assumptions adopted in the risk assessment and the development of estimates related to significant civil and tax lawsuits, involving our specialists for specific cases.

(ii) We confirmed the information with the external lawyers responsible for the proceedings filed against or in favor of the Company and its subsidiaries, regarding the likelihood of loss and information concerning the proceeding.

(iii) We evaluated whether the information disclosed in Note 23 to the financial statements is complete and adequate.

We believe that the criteria and assumptions adopted by management are consistent with the positions we have obtained from the lawyers involved and the disclosures made in the financial statements.

Kroton Educacional S.A.

Other matters

Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2016, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement and are consistent with the parent company and consolidated financial statements taken as a whole.

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

The Company's management is responsible for the other information that comprises the Management Report.

Our opinion on the parent company and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

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

Responsibilities of management and those charged with governance for the parent company and consolidated financial statements

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as 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.

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

Those charged with governance are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Kroton Educacional S.A.

Auditor's responsibilities for the audit of the parent company and consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

Belo Horizonte, March 22, 2017

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

Aníbal Manoel Gonçalves de Oliveira
Contador CRC 1RJ056588/O-8 "S" MG

MANAGEMENT REPORT 2016

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, 2016, with comparisons in relation to fiscal year 2015. 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 a private education organization with nationwide operations in all Brazilian states and 26,159 employees. It operates in Primary & Secondary Education to Postsecondary Education with a comprehensive offering of On-Campus and Distance Learning Undergraduate programs, as well as Graduate, Master's and Doctoral programs. As of December 31, 2016, Kroton had approximately 909,000 Postsecondary students in both the On-Campus and Distance Learning formats studying mainly at its 113 campuses and 910 Distance Learning centers. Kroton's offering is complemented by Vocational Education under the program Pronatec, Preparatory Courses under the brand LFG, Unregulated Programs and Language courses. In the Primary & Secondary Education business, Kroton ended the year with 228,000 students studying via its Learning System, which served 669 private schools nationwide in 2016.

Message from Management

In a scenario of sharp deterioration in key economic indicators, 2016 was yet another year marked by many challenges for Kroton, but also by many important and promising accomplishments. More than ever, we are closely guided by our mission, "*To improve people's lives through responsible education by developing citizens and preparing professionals for the market, while creating value sustainably*," and by our goal of enabling the more than one million students in our various businesses to support Brazil's economic recovery.

We believe this is easily borne out by our actions focused on employability, which is part of our clear and well-outlined strategy that is being rigorously implemented. On this front, the highlight was the results of the Conecta Channel, which not only is working to improve our academic model, but also is as a key tool for improving our students' access to the job market or to career advancement. And, in 2016, we made substantial progress, with the jobs platform made available nationwide and delivering exceptional numbers, such as 4,200 partner companies registered and 42,000 job opportunities advertised.

We are working to continue innovating and improving our students' experience with the rollout of our academic model KLS 2.0, which will play a critical role in continuing to improve our performance in regulatory indicators. In this context, the highlight is the massive investment of some R$400 million made in the past two years in actions to continually improve our academic quality and in other projects related to teaching excellence.

And our regulatory results for 2015, which were just announced in early 2017, bring, despite some opportunities for improvement, very positive signs. The General Program Index (IGC) once again posted a very strong result, with 95% of our Institutions of Higher Learning receiving satisfactory scores. Kroton's average score surpassed the average score of private institutions by 85% and of public institutions by 87%. In the Preliminary Program Score (CPC), Kroton received 87% satisfactory scores, while the Performance Difference Index (IDD) once again improved, with Kroton outperforming public institutions, with 81% of our programs receiving positive scores. The IDD score for 2015 is the highest in Kroton's history and attests to the capacity of our institutions to collaborate decisively to its students' education and development.

We continued to rollout the Digital Student Portal (PDA), which offers a range of administrative, academic and financial services in digital format to make students' lives easier. We also made progress on developing the Retention Program, which supports our students through targeted projects to help them conclude their studies at our institutions and in turn helps to control our dropout rate.

And we delivered consistent results throughout 2016, effectively exceeding all of the goals and targets set. We delivered very strong operating and financial results, largely due to the superior levels of efficiency we have attained in our various operations.

The organic growth initiatives began to materialize with the accreditation of four on-campus units in the second semester of 2016 and early 2017, not to mention the 44 other accreditation requests that should be authorized over this and the coming years. Note that this does not include any opportunities from the transaction with Estácio, which is pending approval by Brazil's antitrust agency CADE.

And all these efforts are complemented by our social responsibility actions, which, in 2016, benefitted over 2.3 million people through some 2,300 social actions and projects, in which our students become involved, which supported their development in competencies aligned with the learning practices, effectively reinforcing the development of citizenship.

These accomplishments and the more than 190 other ongoing strategic projects being carried out will serve as the foundation for making 2017 another year in which Kroton continues to surprise on the upside and to overcome adversities whatever they may be. The challenges of 2016 have been surmounted and we are ready for 2017, with a permanent focus on building a solid foundation for creating value sustainably in the long term.

Macroeconomic Environment

The climate of uncertainty and political tension observed in 2016 contributed to the deterioration in Brazil's macroeconomic scenario, as evidenced by the 3.6% contraction in GDP, which, jointly with the contraction in 2015, marked the sharpest contraction ever in a two-year period since the start of the historical data series in 1948, of 7.2%. GDP per capita, however, marked its third straight year of contraction, of 4.4% in 2016. The Consumer Confidence Index (ICC), which ended the year at 73.3 points, sank to its lowest level since June 2015, remaining below the indicator's optimism threshold of 100 points. The Industrial Business Confidence Index (ICEI) also ended the year lower, at 48.0 points, with any score below 50 denoting a lack of confidence. The average unemployment rate, as measured by the National Household Survey (PNAD) – Continuous, rose to 11.5% in 2016, affecting 12.3 million people. The recession also affected inflation, which reached 6.29%, the lowest rate since 2013. To stimulate the economy, the Brazilian government cut the basic interest rate from 14.25% at end-2015 to 13.75% at end-2016. Despite starting off the year weaker, at above R$4.00/US$, the Brazilian real gradually strengthened against the U.S. dollar to end the year at R$3.26/US$. As a result, the average exchange rate in 2016 was R$3.48/US$, up slightly from R$3.34/US$ in 2015. Despite this challenging scenario, Kroton made various efforts to capture efficiency gains and to optimize its commercial practices with the aim of sustaining consistent improvement in its operating and financial performance.

Uniasselvi Divestment

On February 29, 2016, Kroton concluded the sale to Treviso Empreendimentos e Participações S.A. of all the ownership interests held by its subsidiaries in Uniasselvi. The sales 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. With regard to the additional price, note that, on April 11, 2016, Kroton announced, through a Notice to the Market, the partial fulfillment of the financial and operating targets, ensuring the receipt of at least R$86 million of this portion. The divestment of Uniasselvi was ordered by Brazil's antitrust agency CADE as a condition for approving the merger with Anhanguera.

Transaction with Estácio Participações S.A.

On July 8, 2016, the Boards of Kroton and Estácio approved the business combination between the two companies, through the merger of Estácio shares into Kroton, at the ratio of 1.281 common share of Kroton for each common share of Estácio, plus the distribution of extraordinary dividends to the shareholders of Estácio in the amount of R$420 million. The transaction was approved by the respective shareholders of the Companies convened in Extraordinary Shareholders Meetings (AGE) held on August 15, 2016. The transaction and the stock merger are subject, among other typical conditions in the Agreement and Plan of Merger of Shares Issued by Estácio into Kroton, to approval by Brazil's antitrust agency CADE.

Operating Performance

In the Postsecondary Education segment, the Company ended 2016 with 908,803 students, with 877,033 students enrolled in Undergraduate programs (On-Campus and Distance Learning) and another 31,770 enrolled in Graduate programs (On-Campus and Distance Learning). This student base is practically stable in relation to 2015 (excluding the students from Uniasselvi), despite the deterioration in the economic crisis and the impact from reducing the number of FIES places in recent student recruiting processes. This attests to the resilience of the Company, which was able to surmount this highly unstable moment caused by Brazil's political and economic instability and to deliver solid results in both its new enrollment and re-enrollment processes.

In this scenario, Kroton registered a significant reduction in the number of FIES students, from 238,200 at the end of 2015 to 191,400 at the end of 2016, which corresponds to 48.3% of the On-Campus Undergraduate base and to 22.6% of the total Undergraduate base. The FIES student-financing program has been losing relevance in the student recruiting process, accounting for only 12.2% of new On-Campus Undergraduate students and for 4.5% of total new Undergraduate students in 2016. In light of this more restrictive scenario for FIES as of 2015, Kroton has been offering, exclusively to newly admitted students, a unique product called Private Special Installment Plan (PEP). Since its implementation, the program has been continually enhanced in terms of positioning and pricing, and Kroton has been adopting a conservative approach in its accounting practices, which includes the recognition of Adjustment to Present Value (APV) in revenue and provisioning at a rate of 50% of the balance to be paid in installments for all PEP students. At the end of 2016, PEP students amounted to 43,500, or 10.7% of the On-Campus Undergraduate base and 5.0% of the total Undergraduate base. Note also the Company’s exposure to the National Program to Promote Access to Vocational Education and Technical Jobs (Pronatec) (*Bolsa Formação* category) decreased significantly throughout 2016, given that there were no new admissions cycle for the program in the period, which led it to end the year with an average student base (average number of students with recognized revenue) of 1,974,000 students in 15 different academic programs.

In the Primary & Secondary Education business segment, Kroton’s main activity is offering, through the Pitágoras Network, a Learning System that includes teaching book collections, teacher training, educational evaluations and other services to private schools at the Pre-School, Primary and Secondary Education levels. In 2016, Kroton served around 228,000 students enrolled in private schools, down 7% on the prior year, due to the integration of the operations of Rede Católica de Ensino. Meanwhile, the number of private Associated Schools stood at 669, or 6% fewer than in 2015, due to the same reason.

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 ended 2016 with 25,049 students, or 40.2% more than at end-2015.

In parallel, the Company also offers Language Courses and Unregulated Programs through its on-campus units and distance learning centers operating under various brands. These short-duration open enrollment programs allow students to expand their knowledge in various fields, such as Management, Education, Mathematics and Languages. In the year, the Company administered these programs to 92,893 students, for growth of 18.3% on the previous year.

Ministry of Education (MEC) Evaluations

Ratio	Below 3	Equal to 3	Above 3	Equal or Above 3
Conceito de Curso (CC)	**0.9%**	**47.4%**	**51.6%**	**99.1%**
Conceito Institucional (CI)	**1.0%**	**68.3%**	**30.8%**	**99.0%**

At the end of 2016, 99.1% of the academic programs and 99.0% 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.

With regard to the regulatory results of 2015 (announced in early 2017), Kroton once again obtained solid results, with 95% of its institutions receiving satisfactory scores on the General Program Index (IGC), 87% on the Preliminary Program Score (CPC), 46% on the Brazilian Student Performance Exam (ENADE) and 81% on the Performance Difference Index (IDD). The IDD score for 2015 is the highest in Kroton's history and attests to the capacity of our institutions to collaborate decisively to their students' education and development.

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 2016 with total gross revenue of R$6,733.0 million, stable in relation to the previous year. The result is explained by the efforts of the Company's sales teams to deliver robust results in the new enrollment and re-enrollment processes, despite the challenging macroeconomic scenario, and by the annual tuition increases, which mitigated the revenue loss from the sale of Uniasselvi. Net revenue amounted to R$5,244.7 million, down slightly by 0.4% and in line with the variation in gross revenue.

- *Cost of Goods Sold and Services Rendered* – in 2016, Kroton's total costs amounted to R$2,156.8 million, corresponding to 41.1% of net revenue, down 1.4 p.p. compared to the previous year, reflecting the continuous capture of synergy gains, especially from the merger with Anhanguera, and the various projects to capture efficiency gains and rigorously control costs and expenses. Cost of services rendered corresponded to 98.5% 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 & Secondary Education, amounted to R$33.3 million, corresponding to 17.6% of the segment's net revenue, down 1.6 p.p. from 2015, due to the increased anticipation of book collection sales in 2016 compared to 2015.

    - Cost of services rendered (related mainly to the operations of the Postsecondary units) was R$2,123.5 million in 2016, corresponding to 40.5% of consolidated net revenue, down 1.4 p.p. from the prior year, due to the capture of efficiency and synergy gains, the highlight of which was the third implementation phase of the Operations Research software, which optimizes the classroom hours of our faculty and the use of the installed capacity of our on-campus units. Other notable projects include (i) the cost reductions obtained through strategic sourcing; and (ii) the improvement to DL performance of Anhanguera, with the convergence of the teaching and commercial models to the DL model of Kroton

- *Gross profit and Gross margin* – gross profit amounted to R$3,087.9 million in 2016, advancing 2.1% compared to 2015. Gross margin stood at 58.9%, expanding 1.4 p.p. from the prior year, reflecting the capture of operating efficiency gains, as described above.

- *Operating Expenses* – in 2016, these expenses amounted to R$1,281.5 million, corresponding to 24.4% of net revenue, down 4.6 p.p. from 2015. 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 came to R$854.7 million in 2016, corresponding to 16.3% of net revenue, virtually stable in relation to 2015.

- Selling Expenses: are expenses with the sales team, advertising and marketing, copyrights and the Provision for Doubtful Accounts (PDA), which combined amounted to R$667.0 million, corresponding to 12.7% of net revenue in 2016:

  - Sales team, advertising and marketing and copyrights: combined these expenses amounted to R$319.4 million, corresponding to 6.1% of net revenue, stable in relation to 2015, demonstrating Kroton's rigorous control of expenses.

  - 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 these criteria, PDA in 2016 amounted to R$347.5 million, corresponding to 6.6% of net revenue, up 1.5 p.p. from 2015, which is basically explained by the Company's higher exposure to the installment plan (PEP), for which it adopts a conservative approach by provisioning 50% of the balance to be paid in installments by all PEP students, and also by the higher number of renegotiations due to the deterioration in the economic environment.

- EBITDA – adjusted EBITDA amounted to R$2,300.3 million in 2016, with margin of 43.9%, up 2.5 p.p. on the prior year, supported by the ongoing efforts to increase operating efficiency and rigorously control costs and expenses. Interest and late fees on overdue tuitions are included in the EBITDA figure. Including expenses and non-recurring events (positive R$105.3 million coming mainly from the capital gain from the sale of Uniasselvi), EBITDA was R$2,405.6 million in 2016, with margin of 45.9%, up 8.2 p.p. from 2015.

- *Debt* – Kroton closed 2016 with a net cash position of R$606.1 million, a reversal from the net debt positions recorded up to the previous year (in 2015, net debt was R$633.5 million), which reflects the strong cash generation in the period and the normalization of the FIES payment flow, including the receipt of 25% of the FIES installments not paid during 2015 (PN23). Debt is composed basically by the balance of the debentures issued in December 2011 and by the outstanding installment payments for the acquisitions made, including the Uniasselvi acquisition 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* – the financial result in 2016 was income of R$116.5 million, compared to the expense of R$31.0 million in 2015, which mainly is due to the higher cash position and the resulting positive impact on interest income.

- *Income Tax and Social Contribution* – the amount of Income Tax and Social Contribution paid in 2016 was R$58.2 million, compared to R$68.4 million in 2015.

- *Net Income* – net income was R$1,864.6 million, advancing 33.6% on the prior year, with net margin expanding 9.0 p.p. on the previous year to 35.6%. Meanwhile, adjusted net income (excluding the amortization of intangible assets, non-recurring expenses and the gains from the Uniasselvi divestment, already net of income tax and social contribution) amounted to R$2,008.0 million, increasing 12.5% from 2015, with net margin expanding 4.4 p.p. to 38.3%.

- *Investment* – investments made in 2016 came to R$356.8 million, corresponding to 6.8% of net revenue, up 0.3 p.p. compared to 2015, in line with the Company's strategy to invest in the sustainability and long-term growth of its businesses. Considering also special projects, which include the acquisition (or sale) of properties, the opening of new units (greenfield) and the construction of buildings to support stronger growth rates over the coming years, total investments amounted to R$418.8 million in 2016, corresponding to 8.0% of net revenue, in line with the Company's guidance. The amount includes the sale of properties in the period, which amounted to R$29.1 million. Excluding this effect, capex amounted to R$448.0 million in 2016, corresponding to 8.5% of net revenue for the year.

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, being the listing segment with the best corporate governance practices, which reaffirms its commitment to the financial community and to all shareholders. The Board of Directors is formed by eight directors, two of whom are independent directors, who are responsible for the general orientation of the business. The Company also has four advisory committees: Financial & Human Resources Committee, Audit Committee, Academic & 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. Kroton also had an Audit Board formed by three members responsible, among other things, for overseeing the activities of the Management, reviewing the financial statements of the Company and reporting their findings to the shareholders. Lastly, Kroton also has an Internal Controls department, whose main objectives are to: (a) map and manage the risks to which the Company is exposed; (b) apply all compliance practices through policies, standards and procedures; and (c) manage the whistleblowing channel. These instruments establish the basic operating guidelines defined by the Senior Management and in keeping with the integrity standards and ethical values of Kroton Educacional.

In 2016, the Company made important advances in enhancing its compliance structure through the activities of its Internal Controls department, which is supervised by the Management and by the Audit Committee. We comply with and report all incidents received via the Kroton Confidential Channel (CCK) and implement the applicable corrective measures when required. Furthermore, the Controls department also conducts internal audits that lead to the creation of action plans and deadlines for implementing controls to mitigate any identified risks.

Charged with the permanent mission of maintaining transparency with regard to Kroton's business and performance, the Investor Relations (IR) team organized more than 30 events for the financial community in 2016, which included conferences with Brazilian and international analysts and investors and 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 four awards: "Grand Prix for Best Investor Relations Program;" "Best Investor Meeting: Kroton Day;" "Best Performance in a Crisis Year," and "Best Conference Call." In addition, *Institutional Investor* magazine also conferred awards to Kroton in the categories Best CEO, Best CFO, Best IR, Best IR

Professional, Best Meeting with Analysts and Best Website. Other awards received in the year include Best Performance in the Education and Teaching Industry and Best Senior Executive in the Education Industry from the newspaper *Valor Econômico*; "Best Case of Value Creation in the Education Industry" from the Brazilian Association of Publicly Traded Companies (Abrasca); 6th place among the 100 Most Innovative Companies in the Use of IT and 1st place in the education industry ranking compiled by IT Mídia; Company of the Year in Customer Service from the magazine *Época Negócios* and the website Reclame Aqui; 2nd place in Best SSCs in Brazil from the Brazilian Shared Services Association; and Best Financial Transaction of 2016 for the acquisition of Estácio in the Golden Tombstone Awards sponsored by the Brazilian Institute of Financial Executives (IBEF).

Capital Markets

In 2016, the Company's stock ("KROT3") was traded in 100% of trading sessions on the BM&FBovespa, with average daily financial trading volume of R$129.2 million. Kroton's stock price gained 39.9% in the period, while the Bovespa Index (Ibovespa) gained 38.9%. At the end of 2016, the Company's market capitalization was R$21.7 billion. The Company's stock is also a component of the Bovespa Index (IBOV), Special Corporate Governance Stock Index (IGCX), Special Tag-Along Stock Index (ITAG), Consumption Sector Index (ICON), Broad Brazil Index (IbrA), Brazil 50 Index (IBXL), Brazil 100 Index (IBXX), Corporate Governance Trade Index (IGCT), Corporate Governance Index - Novo Mercado (IGNM), Valor Bovespa Index (IVBX), Mid-Large Cap Index (MLCX) and Morgan Stanley Capital International Index (MSCI Brazil).

In connection with the fifth stock buyback program that expired on July 8, 2016, the Company acquired 11,717,600 shares at an average price of R$8.64 per share. The amount of shares purchased represents 21.7% of the total limit of 54,007,297 common shares under the program, which corresponded to 4% of the free-float on the approval date.

Kroton did not carry out any capital increase and ended the year with the same 1,626,069,778 common shares it started 2016.

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 2016, Kroton increased its payout ratio to 35% and declared dividends of R$620.0 million, of which R$199.3 million was distributed based on the result for the first quarter (paid on May 30, 2016), R$172.7 million was distributed based on the result for the second quarter (paid on August 26, 2016) and R$122.4 million was distributed based on the result for the third quarter (paid on November 25, 2016). Kroton also plans to distribute dividends based on the result for the fourth quarter, in the amount of R$125.6 million, which will bring the total amount distributed for fiscal year 2016 to 35% of its net income, after deducting the legal reserve of 5%.

Social Responsibility

Kroton performance in social responsibility is superlative, which is consistent with its positioning in the Brazilian and industrial education industry. Its transformational programs are carried out on a large scale, are highly effective and are aligned with the education business.

In 2016, the Company's Postsecondary units and Distance Learning centers carried out more than 2,300 social actions and projects that benefited over 2.3 million people in local communities, and engaged students in activities that support the development of competencies aligned with learning practices, which helps to foster citizenship.

The main programs included: Solidary Hazing, an initiative that welcomes and mobilizes freshmen students without violence, which encourages them to participate in citizenship actions from their early days at the university, while implementing projects related to the 17 UN Sustainable Development Goals. Solidarity Hazing mobilized more than 85,700 students in activities that generated some 125,000 service events for the people benefited; the Social Responsibility Campaign, an initiative with programs in various fields that offered a sample of social activities free of charge to over 213,000 people in the local community in the areas of education, health, culture and the environment; National Education Mobilization Day to Combat the Mosquito *Aedes aegypti* and Combat the Zika Virus, which engaged around 1.7 million people in more 350 activities; and other mobilization actions that raised 60 metric tons of food, which were donated to various organizations engaged in the fight against poverty and hunger. The engagement of Postsecondary units and Distance Learning centers in social actions has already benefited more than 160 social organizations, hospitals, public schools and various other institutions nationwide. The activities range from donations of books and other basic items to programs on environmental education, disease prevention, lectures and awareness-raising campaigns on human rights-related topics, educational workshops for children, etc.

Furthermore, the Pitágoras Foundation, which for over 18 years has been operating as Kroton's social arm, developed an advanced management methodology called the Integrated Management System (SGI). SGI is implemented in public elementary and high schools to provide technical support to their administrators and to transfer the methodology. The most notable results of this implementation were the significant advances in student learning and the improvements and innovations in management processes and practices. Some 29,000 educators and 1 million students in more than 12 Brazilian states already have benefited from the program. A community's poorer results on the Basic Education Development Index (IDEB) and on the Human Development Index (HDI) are the basic criteria adopted for implementing the SGI on a pro bono basis, in other words, with no cost for the schools or Municipal Education Departments.

The Pitágoras Foundation also has been leading, for over 10 years, in the state of Minas Gerais, the Minas Gerais Conspiracy for Education Movement, whose main strategy is to strengthen leadership at public schools through systematic meetings (Principals Forums) to share experiences and best practices within the five topics elected by the principals themselves as fundamental issues for a high-quality school: Pacification, Student Motivation, Teacher Motivation, Family/School Integration and Improving Official Learning Indicators. The movement already has benefited some one thousand municipal and state public schools, or around one million students.

Replicating this extremely successful format of the Minas Gerais Conspiracy for Education, Kroton launched the Brazilian Alliance for Education, which began operating in August 2016 in the state of São Paulo to serve some 300 state public schools and benefit approximately 350,000 students. So, in addition to its mission to offer quality education to its students, Kroton contributes to the development of society as a whole, by supporting projects with the capacity to transform people's lives in various areas.

Independent Auditor

In compliance with CVM Instruction 381/03, we inform that PricewaterhouseCoopers Auditores Independentes was engaged to render the following services in 2016: 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.

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.

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, to have reviewed, discussed and approved (i) the contents and opinions expressed by PricewaterhouseCoopers Auditores Independentes in the report issued on March 22, 2017; and (ii) the financial statements for the fiscal year ended December 31, 2016.

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 throughout 2016.

For more details of the analysis of our 2016 results, please go to our website: www.kroton.com.br/ri.
THE MANAGEMENT

BALANCE SHEET AT DECEMBER 31

All amounts in thousands of reais - R$ (A free translation of the original in Portuguese)

ASSETS	Note	Parent company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
CURRENT ASSETS					
Cash and cash equivalents	8	58,390	4,899	1,343,982	398,232
Trade receivables	9	-	-	1,043,905	1,026,913
Inventories	-	-	-	32,120	31,536
Prepayments	10	-	2	67,600	50,081
Taxes recoverable	11	1,694	1,187	81,423	43,384
Other accounts receivable	12	68	-	75,985	91,469
Dividends receivable	-	-	-	13	-
Total current assets		60,152	6,088	2,645,028	1,641,615
NON-CURRENT ASSETS					
Marketable securities	8	-	-	5,718	5,351
Trade receivables	9	-	-	596,762	599,947
Prepayments	10	-	-	1,680	1,680
Taxes recoverable	11	-	-	7,062	6,969
Other accounts receivable	12	-	-	52,376	8,738
Guarantees for tax, labor and civil losses	23	57,618	69,456	184,538	230,299
Judicial deposits	23	408	174	45,618	40,409
Deferred income tax and social contribution	24	-	-	528,239	513,722
Accounts receivable for the sale of Uniasselvi	4	-	-	498,575	-
Related parties	-	-	86	-	-
Investments	15	14,813,810	13,518,753	-	1,600
Property and equipment	13	-	-	1,704,683	1,622,148
Intangible assets	14	57,744	57,061	11,330,786	11,966,376
Total non-current assets		14,929,580	13,645,530	14,956,037	14,997,239
TOTAL ASSETS		14,989,732	13,651,618	17,601,065	16,638,854

BALANCE SHEET AT DECEMBER 31
All amounts in thousands of reais - R$ **(continued)**

LIABILITIES AND EQUITY	Note	Parent company 12/31/2016	Parent company 12/31/2015	Consolidated 12/31/2016	Consolidated 12/31/2015
CURRENT LIABILITIES					
Borrowings	16	-	-	2,426	2,378
Debentures	17	-	-	216,856	193,587
Suppliers	-	21	14	225,367	222,604
Trade payables (confirming)	18	-	-	22,723	-
Salaries and social charges	19	118,951	102,626	350,881	345,677
Income tax and social contribution payable	23	358	557	23,987	24,137
Taxes payable	-	336	381	74,588	64,618
Advances from customers	20	-	-	131,727	131,592
Taxes and contributions payable in installments	21	-	-	10,826	11,090
Accounts payable - acquisitions	22	-	-	86,948	95,481
Dividends payable	-	89,703	70,175	89,703	70,175
Other payables	-	17	65	9,388	12,186
Total current liabilities		209,386	173,818	1,245,420	1,173,525
NON-CURRENT LIABILITIES					
Borrowings	16	-	-	36,003	38,430
Debentures	17	-	-	288,717	524,009
Provision for tax, labor and civil losses	23	186,079	222,624	787,025	984,845
Taxes and contributions payable in installments	21	-	-	41,568	46,523
Accounts payable - acquisitions	22	-	-	60,218	125,587
Deferred taxes	24	744,903	795,488	1,267,691	1,257,029
Other payables		-	-	25,059	29,218
Total non-current liabilities		930,982	1,018,112	2,506,281	3,005,641
TOTAL LIABILITIES		1,140,368	1,191,930	3,751,701	4,179,166
EQUITY					
Share capital	25	4,249,901	4,249,901	4,249,901	4,249,901
Capital reserves		6,309,059	6,266,499	6,309,059	6,266,499
Treasury shares		(29,548)	(96,139)	(29,548)	(96,139)
Revenue reserves		3,319,952	2,039,427	3,319,952	2,039,427
Total equity		13,849,364	12,459,688	13,849,364	12,459,688
TOTAL LIABILITIES AND EQUITY		14,989,732	13,651,618	17,601,065	16,638,854

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

STATEMENT OF INCOME
YEARS ENDED DECEMBER 31
All amounts in thousands of reais, except earnings per share - R$ (A free translation of the original in Portuguese)

		Parent company		Consolidated	
	Note	12/31/2016	12/31/2015	12/31/2016	12/31/2015
NET REVENUE FROM SALES AND SERVICES					
Higher education	29	-	-	5,055,339	5,081,886
Basic education	29	-	-	189,379	183,172
		-	-	5,244,718	5,265,058
COST OF GOODS AND SERVICES					
Cost of services rendered	30	-	-	(2,123,463)	(2,205,626)
Cost of sales	30	-	-	(33,319)	(35,248)
		-	-	(2,156,782)	(2,240,874)
GROSS PROFIT		-	-	3,087,936	3,024,184
OPERATING INCOME (EXPENSES)					
Selling expenses	30	-	-	(666,984)	(586,760)
General and administrative expenses	30	(185,906)	(196,949)	(854,714)	(941,808)
Other operating income (expenses)	30	-	-	(13,746)	(246)
Equity in results of investees	15	2,007,481	1,542,391	-	-
Result on the sale of Uniasselvi	4	-	-	253,907	-
OPERATING PROFIT BEFORE FINANCE RESULT		1,821,575	1,345,442	1,806,399	1,495,370
FINANCE RESULT					
Finance income	31	3,437	935	279,926	164,663
Finance costs	31	(10,962)	(85)	(163,470)	(195,572)
OPERATING PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		1,814,050	1,346,292	1,922,855	1,464,461
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	24	-	(626)	(61,973)	(106,114)
Deferred	24	50,585	50,468	3,753	37,787
		50,585	49,842	(58,220)	(68,327)
PROFIT FOR THE YEAR		1,864,635	1,396,134	1,864,635	1,396,134
Basic earnings per common share - R$	33			1.15	0.86
Diluted earnings per common share - R$	33			1.14	0.86

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

STATEMENT OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31
All amounts in thousands of reais - R$ (A free translation of the original in Portuguese)

		Capital reserves			Revenue reserves					
	Share capital	Capital reserves	Equity instruments arising on a business combination	Treasury shares	Legal reserve	Reserve for investments	Capital budget reserve	Retained earnings (accumulated deficit)	Additional dividends	Total equity
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 acquired	-	-	-	(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
Treasury shares sold	-	-	-	73,292	-	-	-	-	-	73,292
Treasury shares acquired	-	-	-	(6,701)	-	-	-	-	-	(6,701)
Options granted	-	54,986	-	-	-	-	-	-	-	54,986
Result on sale of treasury shares	-	(12,426)	-	-	-	-	-	-	-	(12,426)
Profit for the year	-	-	-	-	-	-	-	1,864,635	-	1,864,635
Legal reserve	-	-	-	-	93,232	-	-	(93,232)	-	-
Mandatory minimum dividend (25%)							-	(584,110)	-	(584,110)
Additional dividend proposed (10%)	-	-	-	-	-	-	-	(35,881)	35,881	-
Investment reserve	-	-	-	-	-	1,151,412	-	(1,151,412)	-	-
							-			
AT DECEMBER 31, 2016	4,249,901	156,872	6,152,187	(29,548)	248,330	2,849,741	186,000	-	35,881	13,849,364

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

All amounts in thousands of reais – R$ (A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax and social contribution		1,814,050	1,346,292	1,922,855	1,464,461
Adjustments to reconcile profit before income tax and social contribution					
Depreciation and amortization	13 and 14	158	-	224,708	186,404
Allocated goodwill amortization		148,776	148,405	176,898	193,467
Provision for doubtful accounts	9	-	-	347,559	268,158
Provision for tax, labor and civil losses	22	(23,522)	(65,529)	(55,401)	(53,196)
Provision for inventory losses		-	-	(47)	727
Financial charges on borrowings and debentures		-	-	107,060	129,561
Financial charges on acquisitions	21	-	-	46,385	24,519
Grant of stock options	25	54,986	48,119	54,986	48,119
Result on the sale of Uniasselvi	4	-	-	(253,907)	-
Result from the sale or write-off of assets and other investments		-	-	(14,808)	(539)
Equity in results of investees	15	(2,007,481)	(1,542,391)	-	-
Changes in operating assets and liabilities:					
(Increase) in trade receivables		-	-	(378,472)	(1,135,158)
(Increase) decrease in inventories		-	-	(537)	3,813
(Increase) decrease in advances		2	(2)	(17,519)	778
(Increase) decrease in related parties		86	-	-	-
(Increase) decrease in taxes recoverable		(433)	(98)	42,709	35,375
(Increase) decrease in judicial deposits		(234)	(164)	(5,209)	2,815
(Increase) decrease in other receivables		(86)	(819)	7,176	(3,938)
Increase (decrease) in trade payables		7	(261)	25,485	36,994
Increase (decrease) in salaries and social charges		16,325	65,858	5,204	41,391
Increase (decrease) in taxes payable		(50,893)	165	(118,703)	(107,143)
Increase (decrease) in advances from customers		-	-	135	30,380
Decrease in taxes and contributions payable in installments		-	-	(5,222)	(9,337)
Increase (decrease) in tax, labor and civil provisions	22	(1,185)	(724)	(96,658)	(73,408)
Increase (decrease) in other accounts payable		50,557	(811)	(6,946)	26,020
Cash provided by (used in) operations		**1,113**	**(1,960)**	**2,007,731**	**1,110,263**
Income tax and social contribution paid		(74)	(53)	(80,843)	(24,369)
Payment of interest on loans and debentures	17	-	-	(106,776)	(124,743)
Net cash provided by (used in) operating activities		**1,039**	**(2,013)**	**1,820,112**	**961,151**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property and equipment	13	-	-	(290,378)	(350,589)
Additions to intangible assets	14	-	-	(155,122)	(107,439)
Accounts payable for acquisitions	15	-	-	(81,993)	(50,282)
Accounts receivable from former owners		-	-	(20,194)	-
Receipt on sale of Uniasselvi		-	-	400,000	-
Cash delivered on the sale of Uniasselvi		-	-	(11,545)	-
Capital increase in subsidiary		-	(26,633)	-	-
Dividends received from subsidiary	15	562,805	339,166	-	-
Receipt on the sale of non-current assets	21	-	-	9,905	38,851
Net cash provided by (used in) investing activities		**562,805**	**312,533**	**(149,327)**	**(469,459)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital increase		-	10,144	-	10,144
Disposal (acquisition) of treasury shares	24	54,165	(109,535)	54,165	(109,535)
New debentures	17	-	-	-	569,785
Payment of debentures	17	-	-	(208,333)	(750,000)
Repayment of borrowings		-	-	(6,349)	(3,211)
Dividends paid to stockholders		(564,518)	(261,407)	(564,518)	(261,407)
Net cash used in financing activities		**(510,353)**	**(360,798)**	**(725,035)**	**(544,224)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		53,491	(50,278)	945,750	(52,532)
Cash and cash equivalents at the beginning of the year	8	4,899	55,177	398,232	450,764
Cash and cash equivalents at the end of the year	8	58,390	4,899	1,343,982	398,232
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**53,491**	**(50,278)**	**945,750**	**(52,532)**

STATEMENT OF VALUE ADDED
YEARS ENDED DECEMBER 31
All amounts in thousands of reais - R$ (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
REVENUE				
Higher education	-	-	5,055,339	5,081,886
Basic education	-	-	189,379	183,172
Result on the sale of Uniasselvi	-	-	253,907	-
Other income	-	-	2,631	18,927
Provision for doubtful accounts	-	-	(347,559)	(268,158)
INPUTS PURCHASED FROM THIRD PARTIES				
Cost of sales	-	-	(33,319)	(39,077)
Materials, electricity, third-party services and other	34,403	65,701	(698,521)	(729,820)
GROSS VALUE ADDED	34,403	65,701	4,421,857	4,246,930
Depreciation and amortization	(158)	-	(224,708)	(186,404)
Allocated goodwill amortization	(148,776)	(148,405)	(176,898)	(193,467)
NET VALUE ADDED	(114,531)	(82,704)	4,020,251	3,867,059
VALUE ADDED RECEIVED THROUGH TRANSFER				
Equity in the results of subsidiaries	2,007,481	1,542,391	-	-
Finance income	3,437	935	279,926	164,663
TOTAL VALUE ADDED TO DISTRIBUTE	1,896,387	1,460,622	4,300,177	4,031,722
Personnel:				
Direct remuneration	64,603	113,977	1,281,710	1,736,183
Benefits	-	-	86,289	86,195
Social charges	6,708	-	413,463	134,405
Taxes, fees and contributions				
Federal	(50,527)	(49,584)	59,072	67,580
State	5	10	895	263
Municipal	1	-	25,483	26,239
Remuneration of third-party capital				
Finance costs	10,962	85	163,470	197,655
Rentals	-	-	393,706	380,260
Copyright	-	-	11,454	6,808
Remuneration of own capital:				
Dividends distributed	584,110	331,582	584,110	331,582
Profits reinvested/loss for the year	1,280,525	1,064,552	1,280,525	1,064,552
VALUE ADDED DISTRIBUTED	1,896,387	1,460,622	4,300,177	4,031,722

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

1. GENERAL INFORMATION

Kroton Educacional S.A. ("Company", "Parent Company" or " Kroton "), headquartered at Rua Santa Madalena Sofia, 25, in the City of Belo Horizonte, State of Minas Gerais, and its subsidiaries (together, the "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 Brazilian Bar Association (OAB); advising and/or offering the possibility of direct and indirect financing for students, developing software for adaptative teaching and optimizing academic management.

The Group has 23 companies, including Kroton Educacional S.A., of which 14 maintain higher education institutions, being: 13 constituted as limited liability corporate entities and 1 as a corporation, and comprising 113 Higher education units, present in 15 Brazilian states and 74 cities, in addition to 910 Distance Learning Graduation Centers, accredited by the Ministry of Education and Culture (MEC), located in all the Brazilian states and the Federal District. The Company also counts on more than 870 associated Basic Education schools all over Brazil.

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. ("Anhanguera").

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 operating results between the quarters of each fiscal year.

1.1. Execution of protocol and justification of the merger of the shares of Estácio.

On July 8, 2016, the Boards of Directors of Kroton and Estácio Participações S.A. ("Estácio") approved the financial bases for the combination of the operations of both companies, which stipulates the merger of all the shares issued by Estácio into Kroton, according to the "Protocol and Justification of the Merger of the Shares Issued by Estácio into Kroton", authorized on that date.

The proposal presented for the combination of Kroton and Estácio would result in: (a) the ownership, by Kroton, of all the shares issued by Estácio; (b) the receipt, for each common share issued by Estácio, of 1,281 common shares of issue of Kroton (considering 307,680,459 shares of Estácio and 1,618,617,238 shares of Kroton, excluding, in both cases, the treasury shares); and (c) the distribution of extraordinary dividends to the stockholders of Estácio in the amount of R$ 420 million (four hundred and twenty million reais), representing approximately R$ 1.37 per share of Estácio. The conclusion of this transaction was subject to: (a) the preparation of all documents required by the applicable legislation or regulations to permit the transaction to be submitted to the companies' stockholders; (b) discussion and approval of the protocol and other documents of the transaction by the related stockholders, as applicable; and (c) approval of the transaction by the regulatory authorities.

As a result of the merger of the shares of Estácio, 394,138,668 new common shares of Kroton will be issued in favor of the stockholders of Estácio (considering that on the date of the transaction there will be 307,680,459 shares of Estácio). The exchange relation shall be changed and adjusted by corporate events determined in the Protocol and Justification of the Merger of Shares, such as distribution of dividends higher than the minimum mandatory values.

On August 15, 2016, the stockholders of Kroton and Estácio approved the merger of all the shares issued by Estácio into Kroton, according to the Protocol and Justification. The decisions taken during these General Meetings are subject to the approval of the Administrative Council of Economic Defense (CADE), in accordance with the terms established by the Protocol.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The Company's financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

The financial statements have been prepared under the historical cost convention, as modified by certain financial assets, other assets and financial liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

a) Parent company financial statements

The Company's financial statements have been prepared in accordance with accounting practices adopted in Brazil issued by the CPC. Because the accounting practices adopted in Brazil applicable to parent company financial statements, as from 2014, do not differ from the International Financial Reporting Standards (IFRS) applicable to separate financial statements, which now allow entities to use the equity method to account for investments in subsidiaries, associates and joint ventures in the separate financial statements, they are also in compliance with the IFRS issued by the International Accounting Standards Board (IASB) and are disclosed together with the consolidated financial statements.

b) Consolidated financial statements

The consolidated financial statements have been prepared and are being presented in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The presentation of the parent company and consolidated statements of value added is required by the Brazilian corporate legislation and the accounting practices adopted in Brazil for listed companies, while it is not required by IFRS. Therefore, under the IFRS, the presentation of such statements is considered supplementary information, and not part of the set of financial statements.

2.2. Consolidation

The following accounting policies are applied in the preparation of the consolidated financial statements.

2.2.1 Subsidiaries

Subsidiaries are all entities over which the Group has the control, that is, when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to direct the significant activities of the investee. They are fully consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases.

Identifiable assets acquired and liabilities and contingent liabilities assumed for the acquisition of subsidiaries in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. Non-controlling interests are determined on each acquisition. Acquisition-related costs are expensed as incurred.

All amounts in thousands of reais unless otherwise stated

Transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2.2 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

	Interest in total capital - %	
Subsidiaries	12/31/2016	12/31/2015
Direct subsidiary:		
Anhanguera - Anhanguera Educacional Participações S.A.	100	100
Indirect subsidiaries:		
AESA- Anhanguera Educacional Ltda.	100	100
AESAPRO - Clínica Médica Anhanguera Ltda.	100	100
Unipli - Sociedade Educacional Plinio Leite S/S Ltda.	-	100
Luiz Rosa - Instituto Educacional Professor Luiz Rosa Ltda.	-	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
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
Famelages - Sociedade Educacional do Planalto Serrano	-	99.99
Famesul - Instituto Educacional Alto Vale do Itajaí	-	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	99.99
União - União de Ensino Unopar	99.99	99.99
Uniasselvi - Sociedade Educacional Leonardo da Vinci	-	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

2.3. 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, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes the Company's strategic decisions.

2.4. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The parent company and consolidated financial statements are presented in Brazilian reais (R$), which is the Company's functional currency, and also the Group's presentation currency.

2.5. 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. In the years ended December 31, 2016 and 2015, the Group did not have any items other than the profit for the years presented in the parent company and consolidated statements of income.

2.6. Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and highly-liquid short-term investments that are readily convertible into a known amount of cash and are subject to immaterial risk of change in value.

2.7. Financial assets

2.7.1. Classification

The Group classifies its financial assets according to the following categories: measured at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Financial assets are included in current assets, except for those with maturities greater than 12 months after the balance sheet date.

2.7.2. Recognition and measurement

Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the statement of income within "Finance income" in the year in which they arise.

2.7.3. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.7.4. Impairment of financial assets

(a) Assets carried at amortized cost

The Group 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.

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 Group 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 loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recorded loss is recognized in the statement of income.

2.8. Trade receivables

Correspond to the amounts receivable from customers for sales made and services rendered in the normal course of the Group'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 doubtful accounts. 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.

2.9. Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined using the average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. A provision for losses is recognized for items out of use, if necessary.

2.10. Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes the cost of acquisition, formation or construction. It also includes finance costs related to the acquisition of qualifying assets. Land is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the Group and they can be measured reliably. The carrying amount of the replaced items or parts is derecognized. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred.

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:

	Years
IT equipment	3.3
Furniture, equipment and fittings	9
Library	10
Buildings and improvements	25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each fiscal year. The Company reviewed the useful life of its assets and concluded that the depreciation rates used are consistent with its operations at December 31, 2016.

An asset's carrying amount is written down immediately to its recoverable amount if it is above the 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.

2.11. 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. 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.

b) Computer software licenses and development of internal projects

Computer software licenses purchased are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

Directly attributable costs that are capitalized as part of the software product/project include the software/project development employee costs and an appropriate portion of significant direct expenses.

Development costs that do not meet these capitalization criteria are recognized as an expense as incurred. Development costs previously recorded 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.

2.12. 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. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment.

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized when 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 the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-generating units (CGU's)). For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs (or groups of CGUs) that is expected to benefit from the synergies of the combination.

Non-financial assets other than goodwill that were adjusted due to impairment are subsequently reviewed for possible reversal of the impairment at the balance sheet date. The impairment of goodwill recognized in the statement of income is not reversed.

2.13. Suppliers

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

2.14. 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 total amount payable 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15. 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 (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

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.

2.16. 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.

Deferred income tax asset is recognized only to the extent it is probable that future taxable profit will be available against which the temporary differences 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 the taxable entity 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 (Social Integration Program (PIS), Social Contribution on Revenues (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.

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.

2.17. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit attributable to stockholders of the Company by the weighted average number of common shares in issue during the year, excluding common shares purchased by the Company and held 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 only has share options with potential dilutive effects.

2.18. Employee benefits - share-based compensation

The Group offers to officers and employees considered to be of strategic importance a share-based compensation plan. 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 entry is recorded in equity as a credit to "Capital reserve - share options". 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.

2.19. Leases

The Group leases certain property and equipment. Leases of property and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased item 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 effective interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases are depreciated over the shorter of the economic useful life of the asset and the lease term.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

2.20. 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).

2.21. Share capital

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 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.

2.22. 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 Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts, adjusted to present value, and after eliminating sales between the Group companies.

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

The Group recognizes revenue when: (i) the amount of revenue can be reliably measured; (ii) it is probable that future economic benefits will flow to the Group; and (iii) specific criteria have been met for each of the Group'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 Group bases its estimates 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 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 Company's revenue consists mainly of the provision of higher education (undergraduate) courses and is recognized based on the services performed up to the balance sheet date. The monthly tuition fees of the courses and related discounts vary according to the course, unit or teaching term. Six monthly tuition fees are charged, and the first one is usually considered as an enrollment fee. Enrollment always takes place in six-month periods and students' renewal occurs depending on the fulfillment of academic and contractual obligations (payments), at the end of the semester.

The following criteria are complied with upon recognition of the revenue from student contracts according to the form of payment for the service: the existence of a valid and signed contract, the value of the services is easily identifiable and it is probable that the entity will receive the consideration of the services provided.

Therefore, due to the fact that students who have contracts financed under the FIES Program need to validate and amend the contract with the FNDE, the Company, in a conservative manner, performs additional validation and check procedures, including, but not limited to, the monitoring of the status of the process of adding students contracts in SisFies, in order to ensure that the monthly tuition fees will be received in a normal and recurring manner. In addition, the student has already signed a contract for the provision of educational services previously with the Institution and, in case of default, it may charge the student directly.

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 each option chosen. Thus, revenue is recognized on the percentages of 70% or 64%, respectively. The value of the transfer also varies according to the size of the classes.

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.

Interest income

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.

2.23. Dividend distribution

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 General Meeting of Stockholders.

2.24. New and revised standards and interpretations

The following new standards were issued by IASB but are not effective for 2016. The early adoption of standards, even though encouraged by IASB, has not been implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC). Management is assessing the future impacts upon adoption.

(i) IFRS 15 - Revenue from Contracts with Customers

This new standard brings the principles that an entity shall apply to determine the revenue measurement and when it is recognized. This standard is based on the principle that revenue is recognized when the control of a good or service is transferred to a customer, so the control principle will replace the principle of risks and rewards. It will be effective on January 1, 2018 and replaces IAS 11/CPC17 - "Construction contracts", IAS 18/CPC 30 - "Revenue" and corresponding interpretations.

(ii) IFRS 9 - Financial Instruments

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and is effective as from January 1, 2018. It replaces the orientation included in IAS 39/CPC 38 related to the classification and measurement of financial instruments. The main amendments brought by IFRS 9 are: (i) new criteria for the classification of financial assets; (ii) new impairment model for financial assets, which is a hybrid of expected and incurred losses, replacing the current model of incurred losses; and (iii) relaxation of the requirements for adoption of the hedge accounting.

(iii) IFRS 16 - Leases

This new standard requires lessees to recognize the liability of the future payments and the right of use of the leased asset for virtually all lease contracts, including operating leases. Certain short-term and low-value contracts may be out of the scope of this new standard. The criteria for recognition and measurement of leases in the financial statements of the lessors are substantially maintained. IFRS 16 is effective for years beginning on or after January 1, 2019 and replaces IAS 17/CPC 06 - "Leases" and corresponding interpretations.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the financial statements, the Group 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 Group 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 the main estimates developed by management.

a) Assessment of impairment for goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.12. The recoverable amounts of Cash-Generating Units (CGUs) are determined based on value-in-use calculations. These calculations require the use of estimates (Note 14).

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 fiscal year 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 Group 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 the evaluation of available evidence, including the opinion of the internal and external legal advisors of the Group and its subsidiaries. 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 (Note 9 and 22).

All amounts in thousands of reais unless otherwise stated

4. SALE OF UNIASSELVI

After the fulfillment of the suspensive conditions established in the Agreement for the Purchase and Sale of Quotas and Other Covenants, on February 29, 2016, the sale to Treviso Empreendimentos e Participações S.A. (the "Buyer") of all the corporate investments held by subsidiaries of Kroton in the following companies was completed (together "Uniasselvi"): Sociedade Educacional Leonardo da Vinci S/S Ltda. (UNIASSELVI); Sociedade Educacional do Vale do Itajaí Mirim Ltda. (ASSEVIM); Instituto Educacional do Alto Vale do Itajaí Ltda.(FAMESUL); Sociedade Educacional do Vale do Itapocu S.S. Ltda.(FAMEG); and Sociedade Educacional do Planalto Serrano Ltda.(FAMELAGES).

The Buyer agreed to pay to the Company the aggregate price of up to R$ 1,105,000, as follows: R$ 400,000 received in cash on February 29, 2016; R$ 450,000 payable in five annual installments from 2018 to 2022, adjusted by the Amplified Consumer Price Index (IPCA) variation up to the date of payment of the respective installment; and R$ 255,000 payable as an additional consideration, at a variable value to be calculated based on pre-established financial and operational targets.

On April 11, 2016, Kroton fulfilled part of these goals, which will ensure the receipt of a portion of the additional price of approximately R$ 86,738, to be paid in annual installments from 2018 to 2022, adjusted at the IPCA variation up to date of the payment of the respective installment.

On July 31, 2016, there was an adjustment of R$ 7,207 related to the final adjustment of working capital in accordance with the accounting closing of Uniasselvi, which was defined in the contract. The adjusted balance receivable net of Adjustment to Present Value (AVP) at December 31, 2016 totaled R$ 498,575. The net result of this sale is as follows:

TABLE 2 - Net result on the sale of Uniasselvi

	12/31/2016
Revenue from sale of investment	943,945
Adjustment to present value	(66,565)
Balance of net assets written-off (includes goodwill)	(623,473)
Result of sale	253,907
Income Tax/Social Contribution (IRPJ/CSLL) on existing allocated goodwill	63,070
Subtotal	316,977
IRPJ/CSLL on sale	(71,722)
Net result	245,205

All amounts in thousands of reais unless otherwise stated

5. FINANCIAL RISK MANAGEMENT

The Company's management assesses financial risk on a Group basis.

5.1 Financial risk factors

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

The Company's management and the Board of Directors together supervise the administration of such risks in line with the capital management policy objectives:

a) Policy for the use of derivative financial instruments

The Company has no derivative transactions.

b) Market risk - cash flow interest rate risk

This risk arises from the possibility of the Group incurring losses because of interest rate fluctuations that increase finance costs related to borrowings and debentures raised in the market and payables 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 contracted are as follows:

TABLE 3 - Contracted interest rates

	Consolidated		
	12/31/2016	12/31/2015	Interest rate
Borrowings			
Leasing	37,923	39,776	Amplified Consumer Price Index (IPCA)
Leasing - Equipment and Other	506	1,032	6.7% p.a.
Debentures	505,573	717,596	100% of the CDI + interest of 1.5% to 2% p.a.
Accounts payable for acquisitions	56,710	132,928	Interbank Deposit Certificate (CDI)
Accounts payable for acquisitions	42,233	42,582	Amplified Consumer Price Index (IPCA)
Accounts payable for acquisitions (i)	48,223	45,558	Other
Total	691,168	979,472	

(i) Refers mainly to the acquisitions updated by the Special System for Settlement and Custody (SELIC) rate.

c) Credit risk

Credit risk arises from 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 trade receivables) and financial activities, including deposits with 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 sales policy of the Group is aligned with the risk inherent in its segment and is governed by federal government rules (Law 9,870/99, which deals with the total annual tuition fees). The legislation permits the non-renewal of a student's enrollment for the next semester in case of payment default, requiring that the student negotiate the debt with the related institution. The diversification of the receivables portfolio, the selectivity in accepting students, as well as the monitoring of maturities are procedures adopted in order to minimize problems arising from default on accounts receivable.

In the in-class higher education segment, for students included in the Student Financing Fund (FIES), a substantial portion of the Company's credits is secured by the Guarantee fund for Educational Credit Operations (FGEDUC). For the portion of credits not guaranteed by the program, the Company estimates the potential default and recognizes the respective provision.

Additionally, the Company maintains a Provision for doubtful accounts, based on the gross balance of accounts receivable from third parties, in order to cover credit risk.

In 2015, the Company started to offer a new product exclusively for new students - the Private Special Installment Plan (PEP), with the principal objective of offering an alternative means of payment so that new students who did not obtain the FIES could continue their studies in one of the Company's institutions. The initial product offered in the first quarter of 2015 was PEP 10, which financed, without monetary adjustment, 90% of the first 12 monthly payments to be effected in up to eighteen installments after the completion of the course. In the second half of the year, the product evolved to PEP 30 and PEP 50, which finance respectively 70% and 50% of the whole course, restated at the IPCA, payable over the same term of the chosen course after its completion.

The long-term accounts receivable related to FIES and the long-term balances of students benefiting from PEP are adjusted to present value.

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 limits previously established in the Company's policy.

All amounts in thousands of reais unless otherwise stated

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, accounts payable for acquisitions and trade payables. These financial liabilities mostly relate to funds raised for the Company's operations.

The table below analyses the Company's financial liabilities by maturity range, corresponding to the remaining period of the security or liability.

TABLE 3.1 - Financial liabilities by maturity range

				Consolidated
	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
At December 31, 2016				
Trade payables	225,367	-	-	225,367
Borrowings	2,426	2,389	33,614	38,429
Debentures	216,856	246,217	42,500	505,573
Accounts payable for acquisitions	86,948	60,218	-	147,166
	531,597	308,824	76,114	916,535

TABLE 3.2 - Financial liabilities by maturity ranges - Projected

				Consolidated
	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
At December 31, 2016				
Suppliers	225,367	-	-	225,367
Borrowings	6,540	6,437	61,135	74,112
Debentures	304,722	253,476	46,666	604,864
Accounts payable - acquisitions	101,829	71,884	-	173,713
	638,458	331,797	107,801	1,078,056

The balances in Table 3.2 reflect the balances payable of principal and interest and monetary adjustment up to the last installment and, therefore, they do not reflect the balances presented in the related notes for the year ended December 31, 2016.

All amounts in thousands of reais unless otherwise stated

5.2 Capital management

The main objectives of the Company's capital management are to safeguard its ability to continue as a going concern, offer good returns to stockholders and reliability to other stakeholders and to maintain an optimal capital structure with a focus on reducing cost and maximizing the return to stockholders.

To maintain or adjust the capital structure, the Company could revise the policy to pay dividends and return capital to stockholders, issue new shares or buy back shares.

At December 31, 2016, the Company's capital structure was aimed at promoting its growth strategy, whether organically or through acquisitions. The investment decisions consider the expected return potential.

The gearing ratios are as follows:

TABLE 4 - Calculation of the gearing ratios

	Consolidated	
	12/31/2016	12/31/2015
Borrowings, debentures and accounts payable due to acquisitions (i)	691,168	979,472
Cash and cash equivalents and marketable securities - current and non-current	(1,349,700)	(403,583)
Net gearing	(658,532)	575,889
Equity	13,849,364	12,459,688
Gearing ratio	N/A	4.62%

(i) See composition shown in Note 5.1 (b) of borrowings, debentures and accounts payable due to acquisitions.

5.3) Sensitivity analysis

The following table presents the sensitivity analysis of the financial instruments, describing the risks that could generate significant losses to the Company, according to the assessment made by management, considering as the most probable basic scenario in a 12-month horizon, the following projected rates: CDI - 13.25% and IPCA - 4.8% p.a. Additionally, two other scenarios are shown to present, respectively, a 25% and 50% deterioration of the risk variable considered.

Management believes that, because it has a net positive cash scenario, that is, a higher amount of financial investments than bank debts, the best scenario to represent a deterioration in the Company's position is a reduction of CDI accompanied by a decrease in the IPCA rate. In summary, to facilitate the interpretation, we presented the sum of the total variations.

All amounts in thousands of reais unless otherwise stated

TABLE 5 - Sensitivity analysis

	Exposure at the base date 12/31/2016	Risk	Probable scenario	Possible scenario -25%	Remote scenario -50%
Financial investments and marketable securities	1,347,623	Reduction of the CDI	178,560	133,920	89,280
Debentures and accounts payable linked to the CDI	(562,283)	Reduction of the CDI	(74,502)	(55,877)	(37,251)
Borrowings and accounts payable linked to the IPCA	(80,156)	Reduction of the IPCA	(3,847)	(2,886)	(1,924)
	705,184		100,211	75,157	50,105

Source: IPCA from Focus report of the Central Bank of Brazil (BACEN) and CDI, in accordance with the reference rates of the São Paulo Commodities, Futures and Stock Exchange (BM&F), both available on the websites of the respective institutions.

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 estimates of realizable values. Consequently, the estimates below do not necessarily indicate the amounts that could be realized in the current market. The use of different market inputs and/or valuation methodologies could have a material impact on the estimated fair value.

TABLE 6 - Financial instruments

						Consolidated
			12/31/2016			12/31/2015
	Loans and receivables	**Fair value through profit or loss**	**Total**	**Loans and receivables**	**Fair value through profit or loss**	**Total**
Assets as per balance sheet						
Cash and cash equivalents	2,077	1,341,905	1,343,982	15,593	382,639	398,232
Marketable securities	5,718	-	5,718	5,351	-	5,351
Trade and other receivables	1,769,028	-	1,769,028	1,727,067	-	1,727,067
	1,776,823	1,341,905	3,118,728	1,748,011	382,639	2,130,650

						Consolidated
			12/31/2016			12/31/2015
	Liabilities at fair value through profit or loss	**Other financial liabilities**	**Total**	**Liabilities at fair value through profit or loss**	**Other financial liabilities**	**Total**
Liabilities as per balance sheet						
Borrowings	-	38,429	38,429	-	40,808	40,808
Debentures	-	505,573	505,573	-	717,596	717,596
Trade and other payables, excluding legal obligations	-	429,703	429,703	-	485,076	485,076
	-	973,705	973,705	-	1,243,480	1,243,480

(All amounts in thousands of reais unless otherwise stated)

The Company's financial assets and liabilities at December 31, 2016 were recorded in the balance sheet at amounts that were consistent with those prevailing in the market.

The carrying amounts and market values of financial instruments are similar, except for debentures. In the year ended December 31, 2016, the total carrying amount of the debentures was R$ 505,573 and the fair value was R$ 546,049 (R$ 719,039 in December 2015).

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 7 - Credit quality of financial assets

	Consolidated	
	12/31/2016	12/31/2015
Trade receivables (Note 9) (i)		
Group 1 - higher education	2,349,992	2,161,481
Group 2 - basic education	70,971	51,177
	2,420,963	2,212,658
Cash and cash equivalents (Note 8) (ii)		
AAA	41,947	1,140
AA-	1,217,870	13,190
A-	7,259	11
BBB-	-	24,309
BB	-	941
BB-	-	210
AA+	68,481	128,751
BB+	-	235,031
Not applicable	14,143	-
	1,349,700	403,583

I. Trade receivables in Group 1 are mainly comprised of individual customers, linked to the rendering of graduation services and debt negotiation. The risk of this group is managed through the aging of debt securities, and by segregating students enrolled in the Student Financing Fund (FIES) and the Private Special Installment Plan (PEP).

II. Trade receivables in Group 2 are mainly comprised of sales of products to legal entities (companies), which are subject to a credit analysis for the approval of the purchase.

III. Rated by the risk-rating agencies Fitch Ratings and Standard & Poor's (S&P).

(All amounts in thousands of reais unless otherwise stated)

8. CASH AND CASH EQUIVALENTS

TABLE 8 - Composition of Cash and Cash Equivalents

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash				
Current accounts	101	195	2,077	15,593
	101	195	2,077	15,593
Financial investments				
Fixed-income fund	-	-	1,558	1,225
OPCM - Repurchase Operation	-	-	*533,252*	-
National Treasury Bills (LTN)	-	-	*97,628*	*231,438*
National Treasury Note - series O (NTN-O)	*58,289*	*4,704*	*348,455*	-
Bank Deposit Certificates (CDB)	-	-	*60,743*	*21,530*
Financial Bills (LF)	-	-	*55,208*	*86,915*
Financial Treasury Bills (LFT)	-	-	250,779	46,882
	58,390	4,899	1,349,700	403,583
Current	*58,390*	*4,899*	*1,343,982*	*398,232*
Non-current	-	-	5,718	5,351

The Company has short-term investments with high liquidity and immaterial risk of change in value. A significant portion of these investments is carried out through wholly-owned funds. Financial investments presented an average yield of 100.6% of CDI at December 31, 2016 (100.1% of CDI at December 31, 2015). On the other hand, repurchase operations are backed by public securities and are remunerated by the CDI, with an average rate of 99.0% at December 31, 2016.

9. TRADE RECEIVABLES

a) Composition

TABLE 9 - Composition of trade receivables

	Consolidated	
	12/31/2016	12/31/2015
Higher education (i)	2,349,992	2,161,481
Basic education	70,971	51,177
	2,420,963	2,212,658
Provision for doubtful accounts		
Higher education	(599,778)	(463,078)
Basic education	(6,167)	(6,370)
	(605,945)	(469,448)
Trade receivables, net	1,815,018	1,743,210
Adjustment to present value (ii)	(174,351)	(116,350)
	1,640,667	1,626,860
Current	1,043,905	1,026,913
Non-current (iii)	596,762	599,947
	1,640,667	1,626,860

(i) Basically comprised of monthly tuition fees of students, FIES, and PEP receivable.

(ii) The adjustment to present value is calculated on the balances of accounts receivable with future maturities, in order to reflect the present value of the balance already updated with monetary correction and discounted at the appropriate interest rate. The calculation is made using the discounted cash flow method. The weighted average rate used is 5.99% per year, which includes students benefiting from the PEP and the outstanding FIES balance due to PN23 (Administrative Rule 23 of December 29, 2015). Management uses historical rates to calculate the adjustment to present value and, accordingly, does not estimate significant impacts from rate fluctuations.

(iii) Accounts receivable from FIES referring to receipts expected for June 2017 and June 2018 (PN23) and accounts receivable from PEP and from the renegotiation of the monthly higher education fees with maturities above 365 days as from 12/31/2016.

b) FIES

Accounts receivable from FIES are represented by educational loans, the installments of which were contracted by students with the Caixa Econômica Federal (CEF), Banco do Brasil, and the National Education Development Fund (FNDE), the financial resources being transferred monthly by FNDE. The Company can offset federal taxes and/or repurchase the securities, with the amounts being transferred by CEF and Banco do Brasil to a specific bank account. Pursuant to the law that introduced this Program, the Company receives transfers corresponding to the amount financed by students: 98% for students without guarantee fund and 94.2% with guarantee fund.
At the end of 2014, the transfers by the Federal Government were delayed. According to the Litigation Settlement Agreement entered into between the Associação Brasileira para o Desenvolvimento Do Ensino Superior, a União Federal (ABRAES), the Secretaria de Educação Superior do Ministério da Educação (SESU) and the FNDE, these late payments were renegotiated and are being regularized in three installments in 2016 (25%), 2017 (25%) and 2018 (50%), monetarily restated by the Amplified Consumer Price Index (IPCA). In August 2016, the first installment of R$ 183,693, referring to the Agreement, was received.

On July 14, 2016, Provisional Measure 741 was published, which amends Law 10,260 of July 12, 2001, on the Student Financing Fund (FIES), establishing that the teaching institutions will deduct 2% on the value of the educational charges released, which should be transferred directly to the financial agents responsible for the program transfers - currently Banco do Brasil and the Caixa Econômica Federal .

At December 31, 2016, the receivables from FIES, net of the Provision for doubtful accounts and the adjustment to present value, amounted to R$ 794,316 (R$ 1,075,022 at December 31, 2015), including the balance of PN23.

(All amounts in thousands of reais unless otherwise stated)

c) Analysis of maturities

TABLE 10 - Maturities of trade receivables

	Consolidated	
	12/31/2016	12/31/2015
Not yet due	1,738,635	1,655,504
Past due		
Up to 30 days	136,297	121,268
From 31 to 60 days	107,960	82,749
From 61 to 90 days	88,826	67,168
From 91 to 365 days	349,245	285,969
Total past due	682,328	557,154
Provision for doubtful accounts	(605,945)	(469,448)
Adjustment to present value	(174,351)	(116,350)
	1,640,667	1,626,860

d) Provision for doubtful accounts and Write-offs

Monthly fees

The Company recognizes the Provision for doubtful accounts on a monthly basis, by analyzing the receivables and the related composition 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 recurring basis.

FIES

The Company recognizes a Provision for doubtful accounts for FIES-related amounts, according to the loss likelihood associated with the students enrolled in the program, the assumptions being:

- For contracts with a guarantor, a provision was recognized for 4.5% of the accounts receivable of this nature, considering that the Company is only subject to 15% of exposure to FIES credit risk, and an estimate of default of 30%.

- For the contracts covered by the FGEDUC, with enrollment up to April 2014, a provision was recognized for 0.9% of the accounts receivable of this nature, considering that the Guarantor Fund is responsible for 80% of the exposure to FIES credit risk (15%), and an estimate of default of 30%.

- For the contracts covered by the FGEDUC, with enrollment after April 2014, a provision was recognized for 0.45% of the accounts receivable of this nature, considering that the Guarantor Fund is responsible for 90% of the exposure to FIES credit risk (15%), and an estimate of default of 30%.

PEP

The Company adopted, as the methodology for assessing the probability of loss for PEP, the constitution of 50% of the net revenue of the financed portion as the Provision for doubtful accounts, reflecting a conservative position with regard to future default.

TABLE 11 - Changes in provision for the Provision for doubtful accounts

(All amounts in thousands of reais unless otherwise stated)

	Consolidated	
	12/31/2016	12/31/2015
Opening balance	(469,448)	(359,776)
Write-off against trade receivables	180,273	158,486
Write-off due to the sale of Uniasselvi	30,769	-
Constitution	(347,559)	(268,158)
Closing balance	(605,945)	(469,448)

Write-off

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.

10. ADVANCES

TABLE 12 - Composition of advances

	Consolidated	
	12/31/2016	12/31/2015
Advances to employees (i)	23,404	22,179
Rental advances	20,532	10,745
Advances to suppliers	25,344	18,837
	69,280	51,761
Current	67,600	50,081
Non-current	1,680	1,680

(i) Comprised mainly of salary advances.

11. TAXES RECOVERABLE

TABLE 13 - Composition of taxes recoverable

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
IRPJ and CSLL recoverable (i)	1,694	1,187	61,185	28,622
PIS, Cofins and ISS recoverable (ii)	-	-	15,068	9,321
INSS recoverable (iii)	-	-	3,862	4,216
ICMS recoverable	-	-	646	561
Other taxes recoverable (iv)	-	-	7,724	7,633
	1,694	1,187	88,485	50,353
Current	1,694	1,187	81,423	43,384
Non-current	-	-	7,062	6,969

(All amounts in thousands of reais unless otherwise stated)

(i) Refer to the prepayment of IRPJ and CSLL calculated on an estimate basis, which may be used to offset any federal tax administered by the Brazilian Federal Revenue Service (RFB).

(ii) Refers to taxes withheld at source linked to the issuance of invoices for the provision of services.

(iii) Refers to taxes withheld at source by legal entity customers.

(iv) Taxes settled with tax losses pending approval.

12. OTHER ACCOUNTS RECEIVABLE

TABLE 14 - Composition of other accounts receivable

	Consolidated	
	12/31/2016	12/31/2015
Current		
Prepaid expenses (i)	18,400	2,733
Receivables of acquired companies (ii)	87,404	79,727
Sale of real estate and subsidiaries (iii)	17,823	11,492
Other	4,734	6,255
Total	128,361	100,207
Current	75,985	91,469
Non-current	52,376	8,738

(i) Mainly comprised of: R$ 12,404 - marketing expenses; and R$ 5,724 - prepayment of expenses with the University General Hospital (HGU).

(ii) Mainly comprised of the subsidiary Anhanguera Educacional S.A., which recorded an asset as a result of the contractual rights of reimbursement from the former owners of Academia Paulista Anchieta Ltda. (APA), in the restated amount of R$ 50,026, referring to the Services Tax (ISS) balance payable in installments through the Installment Payment Incentive Program (PPI) of the Municipality of São Paulo.

The subsidiary Unirondon has social security debts with the National Institute of Social Security (INSS) amounting to R$ 6,576. These installments will be paid by the Company and the former owners are responsible for them. The Company will make the discounts from the installments payable for the acquisition.

The other subsidiaries together have a balance of R$ 17,601, mainly arising from taxes and lawsuit losses paid, guaranteed by the former owners.

(iii) Mainly comprised of: R$ 4,083 of the remaining balance for the sale of Colégio Anchieta, formalized in 2012 through the subsidiary Anhanguera Educacional Ltda., which will be received in installments, the last of which in December 2021; R$ 3,659 referring to the sale of the property of SUESC; R$ 3,302 referring to the sale of the property of FCR; R$ 2,453 of the remaining balance for the sale of a property located in the city of São Paulo; R$ 1,651 for the sale of a property in Belo Horizonte; and R$ 1,548 referring to the sale of a property of FAUSB.

(All amounts in thousands of reais unless otherwise stated)

13. PROPERTY AND EQUIPMENT

TABLE 15 - Changes in property and equipment

Consolidated

	IT equipment	Furniture, equipment and fittings	Library	Buildings and improvements	Property and equipment in progress	Land	Total
At December 31, 2015	82,652	285,739	115,536	950,840	76,176	111,205	1,622,148
Additions	38,220	78,157	30,088	11,032	132,881	-	290,378
Disposals	(131)	(185)	(277)	(10,526)	(7,865)	(10,988)	(29,972)
Other disposals (i)	(2,035)	(8,977)	(9,057)	(12,380)	(711)	(438)	(33,598)
Depreciation	(29,456)	(49,740)	(19,024)	(46,053)	-	-	(144,273)
Transfers	-	-	-	127,317	(127,317)	-	-
At December 31, 2016	89,250	304,994	117,266	1,020,230	73,164	99,779	1,704,683
Annual average depreciation rate	30%	11%	10%	4%	-	-	

(i) Mainly refers to the assets recorded in the balance sheets of the companies sold (Uniasselvi), as described in Note 4.

14. INTANGIBLE ASSETS

TABLE 16 - Composition of intangible assets

Consolidated

	Software	Internal projects	Goodwill and intangible assets allocated	Other intangible assets	Total
At December 31, 2015	137,264	145,421	11,546,958	136,733	11,966,376
Additions	99,417	55,705	-	-	155,122
Write-offs	(921)	(4,026)	-	-	(4,947)
Other write-offs (i)	(2,745)	-	(525,687)	-	(528,432)
Amortization	(28,979)	(51,307)	(163,866)	(13,181)	(257,333)
At December 31, 2016	204,036	145,793	10,857,405	123,552	11,330,786
Average annual amortization rate	20%	21%	-	5%	-

(i) Refers to the goodwill write-off in the Uniasselvi operation, as described in Note 4.

(All amounts in thousands of reais unless otherwise stated)

a) Goodwill generated in the 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 price paid on the acquisition of subsidiaries was allocated to identifiable intangible assets with finite and indefinite useful lives, after analysis of the assets acquired.

TABLE 17 - Composition of Goodwill and Intangible Assets Allocated

	Consolidated	
	12/31/2016	12/31/2015
Goodwill (i)	8,485,209	8,861,806
Trademarks (ii)	1,655,994	1,732,160
Operation license and partner network (iii)	663,647	795,747
Portfolio of customers (iv)	51,462	154,888
Non-compete agreement (iv)	677	1,443
Development of teaching platform	416	914
	10,857,405	11,546,958

(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.

(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

At December 31, 2016, goodwill was subject to impairment testing and no adjustments to the related amounts were considered necessary.

The methodology used was the discounted cash flow (value in use) to assess the impairment of the goodwill that correspond to each of the CGUs. 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 13.76% per year, following market benchmarks and internal calculation methodologies.

(All amounts in thousands of reais unless otherwise stated)

Impairment test of goodwill on acquisition of Anhanguera

The Company carried out a sensitivity analysis of the (i) discount rate and (ii) growth rate variables. Considering an increase of 1.65% percentage points in the growth rate of the cash flow projections of the subsidiary, or a perpetuity 1.5% lower, this would result in a recoverable amount higher than the carrying amount.

15. INVESTMENTS

TABLE 18 - Composition of investments in subsidiaries

	Parent company	
	12/31/2016	12/31/2015
Editora e Distribuidora Educacional S.A. ("EDE")	4,581,297	3,587,622
Anhanguera Educacional Participações S.A. ("AESAPAR")	2,537,968	2,086,967
Subtotal	7,119,265	5,674,589
Goodwill, including intangible assets allocated from Anhanguera	7,694,545	7,844,164
Total	14,813,810	13,518,753

TABLE 19 - Information on direct subsidiaries

	December 31, 2016					
	Participation in equity - %	Number of shares	Total assets	Total liabilities	Equity	Profit for the year
EDE	100%	2,549,437,961	5,639,660	1,058,363	4,581,297	1,390,090
AESAPAR	74.46%	437,228,783	3,554,879	111,642	3,443,237	829,157
		2,986,666,744	9,194,539	1,170,005	8,024,534	2,219,247

	December 31, 2015					
	Participation in equity - %	Number of shares	Total assets	Total liabilities	Equity	Profit for the year
EDE	100%	2,549,437,961	4,863,444	1,275,822	3,587,622	1,039,489
AESAPAR	73.60%	437,228,783	2,938,884	106,828	2,832,056	594,067
		2,986,666,744	7,802,328	1,382,650	6,419,678	1,633,556

TABLE 20 - Composition of investments in direct subsidiaries

	Parent company					
Investment	12/31/2015	Allocated portion of goodwill	Equity in the results of investees	Dividends	Reclassifications (i)	12/31/2016
EDE	3,587,622	-	1,390,090	(396,415)	-	4,581,297
AESAPAR	2,086,967	-	617,391	(166,390)	-	2,537,968
Goodwill, including intangible assets allocated from Anhanguera	7,844,164	(148,776)	-	-	(843)	7,694,545
Total	13,518,753	(148,776)	2,007,481	(562,805)	(843)	14,813,810

(i) Reclassification of software licenses to the intangible asset line.

(All amounts in thousands of reais unless otherwise stated)

TABLE 21 - Information on indirect subsidiaries

	December 31, 2016					
	Participation in equity - %	Number of quotas	Total assets	Total liabilities	Equity	Profit (loss) for the year
AESA	100%	1,488,325,058	3,830,921	1,143,154	2,687,767	839,302
AESAPRO	100%	20,000	507	57	450	10
FIDC	100%	52,145,057	82,375	145	82,229	14,892
Juspodivm	100%	14,855,339	1,588	1,091	497	(1,907)
Ceama	99.99%	34,958,305	141,548	12,766	128,782	39,521
Fais	99.99%	8,913,752	36,558	2,607	33,951	20,702
Fama Macapá	99.99%	11,619,489	137,514	19,022	118,492	72,685
GK	99.99%	7,592,139	18,016	1,699	16,317	1,138
Iuni	99.99%	345,692,612	919,086	101,972	817,113	319,627
Orme	99.99%	94,993,913	55,459	700	54,759	(14,664)
Pax	99.99%	17,956,763	23,547	3,211	20,336	4,571
Projecta	99.99%	10,234,275	5,167	352	4,815	152
Pses	99.99%	327,606,879	478,310	71,833	406,477	320,879
SPEs	99.99%	23,480,389	34,005	9,841	24,164	7,414
Studiare	99.99%	119,777	471	159	313	(439)
União	99.99%	6,708,878	22,213	4,742	17,470	12,335
Unirondon	99.99%	28,025,000	53,986	17,992	35,995	16,720
Unic Educacional	99.99%	75,515,856	265,380	52,216	213,165	164,022
Unime Salvador	99.99%	13,726,544	70,179	10,559	59,620	22,254
Unime LF	99.99%	38,226,183	265,430	45,684	219,746	148,261

16. BORROWINGS

TABLE 22 - Composition of borrowings

	Consolidated	
	12/31/2016	12/31/2015
Finance leases (i)	38,429	40,662
Banco Safra BNDES PSI Finame	-	146
	38,429	40,808
Current	2,426	2,378
Non-current	36,003	38,430

(i) Refer to rental agreements of operating unit properties effective for 15 years. The balance comprises installments payable related to the Unibero property in the amount of R$ 10,152 and the São Bernardo do Campo property in the amount of R$ 28,277 (R$ 10,960 and R$ 29,702 respectively, at December 31, 2015).

(All amounts in thousands of reais unless otherwise stated)

The finance lease obligations are collateralized by the asset itself.

TABLE 23 - Borrowings by maturity range

		12/31/2016	
	Maturity of installments	Total	%
Total current liabilities	2017	2,426	6.3
	2018	2,389	6.2
	2019	2,501	6.5
	2020 onwards	31,113	81.0
Total non-current liabilities		36,003	93.7
Total		38,429	100.0

17. DEBENTURES

TABLE 24 - Composition of Debentures

				Consolidated	
	Remuneration	Date of issue	Maturity	12/31/2016	12/31/2015
1st issue (i)	CDI + 2.00% p.a.	1/12/2011	12/15/2018	158,404	237,654
2nd issue - 1st series (ii)	CDI + 1.95% p.a.	2/26/2015	9/28/2018	204,357	308,538
2nd issue - 2nd series (ii)	CDI + 1.50% p.a.	2/26/2015	12/10/2017	57,118	85,698
2nd issue - 3rd series (ii)	CDI + 1.70% p.a.	2/26/2015	12/10/2019	85,694	85,706
Total				505,573	717,596
Current liabilities				216,856	193,587
Non-current liabilities				288,717	524,009

(i) Through subsidiary EDE, the Company made its first issuance of debentures, in a single series. 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 do not have renegotiation clauses. The payments of the principal are made annually and the interest due, calculated up to the dates, is paid every six months (June and December).

(ii) Through subsidiary EDE, the Company made its second issuance of debentures, in three series. 570 debentures with unit value of R$ 1,000 were subscribed, totaling R$ 570,000. The debentures are registered, book-entry and non-convertible into shares. The debentures do not have renegotiation clauses. The payments of the principal and interest due, calculated up to the dates, are made every six months (March and September).

(All amounts in thousands of reais unless otherwise stated)

TABLE 25 - Changes in debentures

	Consolidated	
	12/31/2016	12/31/2015
Opening balance	717,596	893,984
Interest accrued	101,576	123,350
2nd Issue of debentures	-	570,000
Addition of costs to be appropriated	-	(215)
Appropriated costs	1,510	5,163
Payment of interest	(106,776)	(124,686)
Payment of principal	(208,333)	(750,000)
Closing balance	505,573	717,596

TABLE 26 - Breakdown of the balance of debentures by maturity

		12/31/2016	
	Maturity of installments	Total	%
Total current liabilities	2017	216,856	42.9
	2018	246,217	48.7
	2019	42,500	8.4
Total non-current liabilities		288,717	57.1
Total		505,573	100.0

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 first issue, the calculation of which is realized every six months, are:

(i) Result of the quotient of dividing the net debt by the adjusted EBITDA. In 2015 the resulting value must be less than or equal to 3.5, and in 2016 it should be equal to or less than 3.0.

(ii) Result of the quotient of dividing the adjusted EBITDA by the adjusted financial result. The value should not be less than 1.2.

The financial ratio of the second issue, the calculation of which is realized annually, is:

(i) Result of the quotient of dividing the net debt by the adjusted Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). The resulting value should not be greater than 3.

At December 31, 2016, the financial ratios of both issues had been complied with.

(All amounts in thousands of reais unless otherwise stated)

18. TRADE PAYABLES (CONFIRMING)

These trade payables refer to amounts whose receipt was anticipated by our suppliers with banks. The interest on this transaction is paid directly by the supplier. The balances of advances made by banks to suppliers totaled R$ 22,723 at December 31, 2016. In the year ended December 31, 2015, this transaction was not carried out.

19. SALARIES AND SOCIAL CHARGES

TABLE 27 - Composition of social security and labor liabilities

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Salaries payable	-	-	57,584	56,261
National Institute of Social Security (INSS)	-	-	49,181	52,440
Government Severance Indemnity Fund for Employees (FGTS)	-	-	12,011	12,344
Withholding Income Tax (IRRF) payable	-	-	23,522	22,381
Provision for vacation pay and 13th month salary	-	-	65,063	67,369
Charges on provisions	-	-	21,650	22,568
Provision for profit sharing	113,329	102,626	113,329	110,787
Other	5,622	-	8,541	1,527
	118,951	102,626	350,881	345,677

20. ADVANCES FROM CUSTOMERS

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. Credit return corresponds to amounts greater than the student's debt, totaling, at December 31, 2016, R$ 131,727 (R$ 131,592 at December 31, 2015).

21. TAXES AND CONTRIBUTIONS PAYABLE IN INSTALLMENTS

TABLE 28 - Composition of taxes and contributions payable in installments

	Consolidated	
	12/31/2016	12/31/2015
Municipal charges payable in installments (a)	44,768	47,077
Tax Recovery Program (REFIS) IV - federal - payable in installments (b)	6,553	7,859
INSS payable in installments	1,073	2,299
Other	-	378
	52,394	57,613
Current	10,826	11,090
Non-current	41,568	46,523

(All amounts in thousands of reais unless otherwise stated)

(a) Municipal charges payable in installments

Anhanguera

On July 27, 2012, the former owners of Academia Paulista Anchieta - APA enrolled in the Installment Payment Incentive Program (PPI), resulting in a balance of ISS payable in installments of R$ 38,067, with 67 installments of R$ 580 remaining, which are adjusted by the monthly Special System for Settlement and Custody (SELIC) rate.

Balance of Municipal Real Estate Tax (IPTU) payable in installments in the total amount of R$ 6,121 with different terms and conditions, adjusted by the monthly Selic rate.

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

In May 2009, the Company applied for the Tax Recovery Program, established by Law 11,941 (Refis IV). At December 31, 2016, the restated credit balance was R$ 6,553. It has different terms and conditions, and the installments are adjusted by the monthly Selic rate.

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

TABLE 29 - Changes in taxes and contributions payable in installments

	Consolidated	
	12/31/2016	12/31/2015
Opening balance	57,613	66,950
Additions	760	(2,912)
Interest adjustment	-	1,014
Payments	(4,148)	(11,927)
Interest refunded by the former owner	(1,831)	4,488
Closing balance	52,394	57,613

22. ACCOUNTS PAYABLE - ACQUISITIONS

TABLE 30 - Composition of payables for acquisitions

	Consolidated	
	12/31/2016	12/31/2015
Ítala	103,474	130,884
Uniabc	26,707	25,194
Sorocaba	-	29,595
LFG	3,156	6,444
Unipli	-	9,941
Unirondon	3,423	6,530
Iesville Educar/Intesc	5,300	4,652
Other	5,106	7,828
Total	147,166	221,068
Current	86,948	95,481
Non-current (i)	60,218	125,587

(i) The long-term balance will be fully settled in 2018.

(All amounts in thousands of reais unless otherwise stated)

TABLE 31 - Changes in payables for acquisitions

	Consolidated	
	12/31/2016	12/31/2015
Opening balance	221,068	245,522
Additions	9,300	4,135
Interest adjustment	18,922	24,519
Disposals/Offsets	(18,977)	(934)
Adjustment to present value	(1,154)	-
Payments	(81,993)	(52,174)
Closing balance	147,166	221,068

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

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

Proceedings involving probable losses

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

TABLE 32 - Changes in contingencies

	Subsidiaries (i)			
	Tax	Civil	Labor	Total
At 12/31/2015	81,833	47,081	93,710	222,624
Monetary restatement	-	-	10,765	10,765
Reversals (ii)	(296)	(14,839)	(19,598)	(34,733)
Total effect - result	(296)	(14,839)	(8,833)	(23,968)
Proceedings - former owner	(3,498)	(7,385)	(953)	(11,836)
Payments	-	(301)	(440)	(741)
Total payments	(3,498)	(7,686)	(1,393)	(12,577)
At 12/31/2016	78,039	24,556	83,484	186,079

(i) This item mainly refers to the changes in possible contingencies arising from the business combination with Anhanguera.

(ii) The main reversals refer to: (a) change in the risk of loss; (b) fully and/or partially favorable outcome.

(All amounts in thousands of reais unless otherwise stated)

TABLE 33 - Changes in contingencies

				Consolidated
	Tax	Civil	Labor	Total
At 12/31/2015	334,787	178,772	471,286	984,845
Additions (i)	1,644	43,656	31,501	76,801
Monetary restatement	7,047	2,516	22,021	31,584
Reversals (ii)	(21,336)	(57,803)	(84,654)	(163,793)
Total effect - result	(12,645)	(11,631)	(31,132)	(55,408)
Proceedings - former owner	(11,525)	(11,356)	(22,873)	(45,754)
Payments	(1,353)	(48,707)	(46,598)	(96,658)
Total payments	(12,878)	(60,063)	(69,471)	(142,412)
At 12/31/2016	309,264	107,078	370,683	787,025

(i) The additions in the year refer to the changes in several proceedings for which the Company is responsible, and had an impact on results:

a) Tax: The main addition in the period refers to a proceeding relating to the Services Tax (ISSQN) of the subsidiary IUNI in the amount of R$ 280, and also additions in 72 proceedings totaling R$ 1,364.

b) Civil: The main addition in the period refers to a proceeding claiming the payment of amounts related to pain and suffering and tangible damage of the subsidiary Anhanguera in the amount of R$ 389, and also additions in 8,489 proceedings totaling R$ 43,267.

c) Labor: The main addition in the period refers to a proceeding related to the payment of labor amounts, in general, in the subsidiary União Ponta Grossa, in the amount of R$ 831, and also additions in 1,391 proceedings totaling R$ 30,670.

(ii) The reversals in the period refer to the changes in several proceedings for which the Company is responsible, and had an impact on results:

a) Tax: In the subsidiary Anhanguera, there was a reversal of R$ 514 in a judicial proceeding under its responsibility regarding the ISSQN due to a favorable outcome, and also reversals in 29 proceedings totaling R$ 20,822.

b) Civil: In the subsidiary Anhanguera, there was a reversal of R$ 13,500 in a judicial proceeding under its responsibility questioning a contractual review due to a favorable outcome, and also reversals in 5,138 proceedings totaling R$ 44,303.

c) Labor: In the subsidiary Anhanguera, there was a reversal of R$ 4,791 in a judicial proceeding in which the plaintiff pleaded the recognition of an employment relationship, due to a partially favorable outcome, and also reversals in 987 proceedings totaling R$ 79,863.

At December 31, 2016, the main judicial and administrative proceedings filed against the Company with the risk of loss classified as probable were:

Tax

The Company and its subsidiaries had (of their own responsibility and that of the former owner), at December 31, 2016, 105 proceedings in progress of a tax nature, classified as a risk of probable loss (126 at December 31, 2015). The main tax proceedings classified as risk of probable loss are discussed below:

a) The subsidiary Anhanguera is a party to 20 tax foreclosures regarding municipal taxes (ISSQN) in the State of São Paulo, for which there is a provision of R$ 129,545, and the responsibility is shared; R$ 120,011 is the responsibility of the former owner. The Company has sufficient contractual guarantee for the proceedings that are the responsibility of the former owner.

b) The subsidiary Anhanguera of Niterói is a party to 5 tax assessment notices regarding the collection of payments of third parties in the INSS form, for which there is a provision of R$ 32,170. This proceeding is under the responsibility of the former owner and there is sufficient contractual guarantee.

c) The subsidiary Unime Lauro de Freitas is a party to 3 tax foreclosures regarding municipal taxes (ISSQN), for which there is a provision of R$ 15,547.

d) The subsidiary Anhanguera of Osasco, São Paulo, is a party to a tax foreclosure regarding municipal taxes (ISSQN), for which there is a provision of R$ 10,158.

e) The subsidiary Anhanguera of Niterói is a party to a proceeding that challenges the certificate of charitable organization for the period in which the institution was entitled to the right of tax immunity, for which there is a provision of R$ 7,247. This proceeding is under the responsibility of the former owner and there is sufficient contractual guarantee.

f) The subsidiary Anhanguera of Campinas, São Paulo, is a party to a tax assessment notice regarding social security credits, for which there is a provision of R$ 2,932.

Civil

The Company and its subsidiaries had (of their own responsibility and that of the former owner), at December 31, 2016, 4,443 proceedings in progress of a civil nature, classified as a risk of probable loss (6,880 at December 31, 2015), equivalent to R$ 107,078 (R$ 178,772 at December 31, 2015). The main civil proceedings classified as risk of probable loss are discussed below:

a) The subsidiary Anhanguera of Curitiba, Paraná, is a party to a proceeding related to contract termination, seeking indemnity for such termination, for which there is a provision of R$ 7,881.

b) The subsidiary Anhanguera of Belo Horizonte, Minas Gerais, is a party to a proceeding related to contract termination, seeking indemnity for such termination, for which there is a provision of R$ 1,081.

c) The Company, in relation to civil proceedings, has a provision for several proceedings whose award is up to 40 minimum wages; limit established by Law 9,099/95 for the Small-claims Courts (Law of the Small-claims Courts).

Labor

The Company and its subsidiaries had (of their own responsibility and that of the former owner), at December 31, 2016, 1,942 proceedings in progress of a labor nature, classified as a risk of probable loss (2,387 at December 31, 2015), equivalent to R$ 370,683 (R$ 471,286 at December 31, 2015). The main labor proceedings classified as risk of probable loss are discussed below:

a) The subsidiary Anhanguera is a party to a proceeding filed by the Teacher's Union of the industrial hub of São Paulo (the ABC region) claiming: Weekly Remunerated Rest (DSR) in respect of night shifts, and differentials related to five-year periods; hourly rates per activity and other salary related amounts, for which there is a provision of R$ 18,517.

b) The subsidiary Anhanguera is a party to a labor proceeding involving several plaintiffs that seek the recognition of labor amounts, for which there is a provision of R$ 14,602.

c) The subsidiary Anhanguera is a party to proceedings filed by the Teacher's Union of the State of Rio Grande do Sul claiming: salary differences referring to the full payment of the hourly rates per activity and their reflexes, night-shift differential, and supervision of students' Final Papers (TCC), for which there is a provision of R$ 3,660.

d) The subsidiary Anhanguera of Osasco is a party to a labor proceeding claiming: half-year payments, salary differences due to the improper decrease in the workload; parity of the amount of class hours regarding academic activities (TCC) with the amount of class hours regarding higher education; parity of the amounts of class hours of Supervised Practical Activities (ATPS) with the amount of class hours; for which there is a provision of R$ 1,680.

e) The subsidiary Anhanguera is a party to a proceeding in which the plaintiff pleads: overtime and related reflexes; increase in workload; additional pay for working in another state; vacation pay; and pain and suffering for working during vacation, for which there is a provision of R$ 1,653.

(All amounts in thousands of reais unless otherwise stated)

TABLE 34 - Composition of proceedings - possible loss

	Consolidated	
	12/31/2016	12/31/2015
Tax	367,476	211,776
Civil	162,200	134,849
Labor	40,017	26,957
Total	569,693	373,582

The proceedings classified as possible loss are not provided for in the Company's financial statements, among which are the proceedings arising from the business combination, according to TABLE 34 (Parent company). At December 31, 2016, the Company and its subsidiaries had 10,886 proceedings classified as possible loss, of which 93 were of a tax nature, 9,930 of a civil nature, and 863 of a labor nature. The main proceedings are presented below:

Tax

a) The subsidiary IUNI is a party to tax assessment notices aiming the collection of Corporate Income Tax (IRPJ), Social Contribution on Net Income (CSLL), Social Integration Program (PIS), Social Contribution on Revenues (COFINS) and National Institute of Social Security (INSS) during the period in which it had immunity from taxation. This proceeding is classified by the Company's legal advisors as a possible loss of R$ 200,833, and is not provided for.

b) The subsidiary IUNI is a party to tax foreclosures of the Federal Audit Court referring to the rendering of accounts during the period in which it had immunity from taxation. These proceedings are classified by the Company's legal advisors as a possible loss of R$ 26,851, and are not provided for. This proceeding is under the responsibility of the former owner and there is contractual guarantee.

c) The subsidiary CEAMA São Luiz is a party to tax assessment notices aiming the collection of IRPJ and CSLL, which are classified by the Company's legal advisors as a possible loss of R$ 13,612, and are not provided for. This proceeding is under the responsibility of the former owner. In the event of an unfavorable outcome for the Company, it is entitled to indemnification.

d) The subsidiary Anhanguera of Santo André is a party to a tax foreclosure regarding federal taxes, which is classified by the Company's legal advisors as a possible loss of R$ 9,149, and is not provided for. This proceeding is under the responsibility of the former owner and there is contractual guarantee.

Civil

a) The subsidiary Editora of Bandeirantes, Paraná, is a party to a proceeding filed by the local Public Attorney's Office seeking the return of a property assigned by the

(All amounts in thousands of reais unless otherwise stated)

Municipality, and the maintenance of scholarships to the students of the Unit, in the period from 2003 to 2010, who live in the Municipality of Bandeirantes. This proceeding is classified by the Company's legal advisors as a possible loss of R$ 12,000, and is not provided for. This proceeding is under the responsibility of the former owner of Unopar. In the event of an unfavorable outcome for the Company, it is entitled to indemnification.

b) The subsidiary Anhanguera is a party to a collective litigation filed by the Public Attorney's Office referring to the regularization of the issuance of diplomas in the unit of Osasco, São Paulo. This proceeding is classified by the Company's legal advisors as a possible loss of R$ 10,000, and is not provided for.

c) The subsidiary Anhanguera is a party to an administrative proceeding of the Public Attorney's Office referring to the compliance with the standards for the regularization of the works to improve the accessibility in the unit of Campo Limpo, São Paulo. This proceeding is classified by the Company's legal advisors as a possible loss of R$ 10,000, and is not provided for. This proceeding is under the responsibility of the former owner and there is contractual guarantee.

d) The subsidiary Anhanguera São Paulo is a party to a proceeding discussing the suit for collection of property rental, which is classified by the Company's legal advisors as a possible loss of R$ 9,428, and is not provided for. This proceeding is under the responsibility of the former owner and there is contractual guarantee.

e) The subsidiary IUNI is a party to a proceeding, filed by the former owner, discussing the payment of the price difference in the acquisition of a company controlled by it. This proceeding is classified by the Company's legal advisors as a possible loss of R$ 3,463, and is not provided for.

Judicial deposits

The Company has judicial deposits as follows.

TABLE 35 - Composition of judicial deposits

	Consolidated	
	12/31/2016	12/31/2015
Tax	9,203	9,215
Civil	3,122	2,130
Labor	33,293	29,064
Total	45,618	40,409

Guarantees of provision for tax, labor and civil losses

The composition of the judicial and administrative proceedings provisioned, the responsibility for which is guaranteed contractually by the former owners, is as follows:

(All amounts in thousands of reais unless otherwise stated)

TABLE 36 - Composition of lawsuits that are the responsibility of former owners

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Tax	48,829	52,326	138,014	149,538
Civil	5,778	13,119	13,300	24,632
Labor	3,011	4,011	33,224	56,129
Total	57,618	69,456	184,538	230,299

24. CURRENT AND DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

a) Income tax and social contribution in the results

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

TABLE 37 - Reconciliation of the income tax and social contribution

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Profit before income tax and social contribution for the year	1,814,050	1,346,292	1,922,855	1,464,461
Combined standard rate of income tax and social contribution - %	34%	34%	34%	34%
IRPJ and CSLL calculated at the standard rates	(616,777)	(457,739)	(653,771)	(497,917)
Equity in the results of investees	682,544	524,413	-	-
Tax incentive in subsidiaries subject to the University for All Program (PROUNI) benefit		-	547,370	450,836
Additions (exclusions), net (i)	(12,215)	(16,832)	(35,007)	(47,423)
Difference in deemed profit rate of subsidiary	-	-	1,033	878
Unrecognized deferred IRPJ and CSLL on loss of subsidiaries for the year	(2,967)	-	(8,051)	(952)
Write-off of deferred IRPJ/CSLL on allocated goodwill on the sale of Uniasselvi (ii)	-	-	63,070	-
IRPJ and CSLL - other changes	-	-	27,136	26,251
Total IRPJ and CSLL	50,585	49,842	(58,220)	(68,327)
Current IRPJ and CSLL in the result	-	(626)	(61,973)	(106,114)
Deferred IRPJ and CSLL in the result	50,585	50,468	3,753	37,787

(i) The main additions and exclusions refer to temporary differences for which no deferred amounts are recorded.

(All amounts in thousands of reais unless otherwise stated)

(ii) Referring to allocated deferred tax on goodwill written off on February 29, 2016 due to the sale of the investment in Uniasselvi (Note 4).

b) Deferred income tax and social contribution

The deferred tax asset balances at December 31, 2016 are recorded in various companies of the Group, as in December 2015.

TABLE 38 - Deferred income tax and social contribution assets

	Consolidated	
	12/31/2016	12/31/2015
Income tax and social contribution losses	199,869	198,387
Temporary differences (book/tax)	328,370	315,335
	528,239	513,722

TABLE 39 - Deferred income tax and social contribution assets by year of realization

		Consolidated	
	Maturity	Total	%
Total current liabilities	2017	42,871	8.2
	2018	78,840	15.0
	2019	78,158	14.9
	2020 onwards	328,370	61.9
Total non-current liabilities		485,368	91.8
Total		528,239	100.0

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

TABLE 40 - Deferred income tax and social contribution - effect on profit (loss)

		Effect on profit (loss)		Parent company
	12/31/2015	Sale of investment	Other	12/31/2016
In liabilities				
Goodwill on business combination	(795,488)	50,585	-	(744,903)
	(795,488)	50,585	-	(744,903)

(All amounts in thousands of reais unless otherwise stated)

		Effect on profit (loss)		Consolidated
	12/31/2015	Amortization of goodwill	Other	12/31/2016
In assets				
Income tax/social contribution:				
Income tax and social contribution losses	198,387	-	1,482	199,869
Temporary differences (book/tax)	315,335	-	13,035	328,370
Non-current assets	513,722	-	14,517	528,239
In liabilities				
Goodwill on business combination	(1,231,597)	68,497	-	(1,243,152)
Other adjustments	(25,432)	-	(79,159)	(24,539)
Non-current liabilities, net	(1,257,029)	68,497	(79,159)	(1,267,691)
	(743,307)	68,497	(64,642)	(739,452)

The deferred income tax and social contribution liabilities mainly arise from intangible assets resulting from acquisitions, whereas the deferred income tax and social contribution assets refer to tax losses and additions to taxable income of prior and current years.

c) Tax incentives

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

Tax credits recorded due to the ProUni, in the year ended December 31, 2016, total R$ 736,034 (R$ 629,936 in December 2015), including PIS and COFINS.

25. EQUITY

a) Share capital

The Company's subscribed and paid-up capital at December 31, 2016 and December 31, 2015 totaled R$ 4,249,901.

TABLE 41 - Composition of share capital

	12/31/2016	12/31/2015
Total shares (except treasury)	1,623,858,703	1,614,706,419
Total treasury shares	2,211,075	11,363,359
Total shares	1,626,069,778	1,626,069,778

(All amounts in thousands of reais unless otherwise stated)

b) Treasury shares

TABLE 42 - Changes in treasury shares

	Number of shares
At December 31, 2015	11,363,359
Repurchase of treasury shares	845,100
Disposal of shares	(9,997,384)
At December 31, 2016	2,211,075

c) 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.

d) Dividends

TABLE 43 - Calculation of dividends

	Accumulated for 2016	Accumulated for 2015
Profit	1,864,635	1,396,134
Legal reserve calculation - 5%	(93,232)	(69,807)
Adjusted profit	1,771,403	1,326,327
Minimum mandatory dividends - 25%	442,851	331,582
Interim dividends - 10%	141,259	-
Total interim dividends paid in the year (i)	(494,407)	(261,413)
Dividends payable (ii)	89,703	70,169

(i) The Board of Directors' meetings approved the following payments of interim dividends in 2016: R$ 199,285 paid in June; R$ 172,692 paid in August, and R$ 122,430 paid in November, totaling R$ 494,407.

(ii) Do not include additional dividends of 2016 (R$ 35,881), which are presented in a specific equity account, up to the approval of the stockholders.

e) Reserve for investments

The remaining balance of the profit for the year ended December 31, 2016, after the offset of accumulated losses, the recognition of the legal reserve and the proposal for payment of dividends in the amount of R$ 1,151,412 (R$ 994,745 at December 31, 2015), 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 2017.

f) 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.

g) Equity instruments arising on a business combination

The balance of the reserve for equity instruments is mainly due to the merger of the shares of Anhanguera, which occurred on July 3, 2014, with 135,362,103 registered book-entry common shares with no par value issued by the Company.

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).

26. STOCK OPTION PLAN

Plans maintained by Kroton Educacional S.A.

The purpose of the Company's stock option plans is to attract and retain the executives of the Company and its direct and indirect subsidiaries, and also encourage a greater integration of these executives with the Company, providing them the opportunity to become shareholders, or increase their interest in the Company, thus obtaining a greater alignment of interests, and sharing the success of achieving its objectives.

The Company's officers and the senior executives of the Company and its subsidiaries, appointed by the Board of Directors or by the Financial and Human Resources Committee, as applicable, 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. 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.

(All amounts in thousands of reais unless otherwise stated)

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

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 exercise prices defined in the existing contracts for the granting of shares at December 31, 2016 are presented in the table below:

TABLE 44 - Composition of the stock option plans

Plans	Average exercise price defined in contract
Plan - 2010	R$ 6.06
Plan - 2013	R$ 9.90
Plan - 2009	R$ 2.41 to R$ 6.86
Plan - 2013	R$ 6.54 to R$ 15.27
Plan - 2015	R$ 8.42 to R$ 13.10

Changes in the stock option plans

The variations in the number of share options outstanding and their related weighted average exercise prices, on a retrospective basis, were as follows:

TABLE 45 - Changes in the stock option plans

	Number of shares					
PLANS	12/31/2015	Granted	Exercised (i)	Canceled/forfeited	12/31/2016	Average exercise price
AEDU_Plan 2010	6,244,124	-	(3,065,107)	(331,713)	2,847,304	R$ 6.06
AEDU_Plan 2013	10,432,153	-	(956,362)	(699,537)	8,776,254	R$ 9.90
KROT_Plan 2009	14,295,526	-	(3,784,333)	(3,684,195)	6,826,998	R$ 4.02
KROT_Plan 2013	17,982,048	-	(1,410,000)	(1,642,048)	14,930,000	R$ 8.26
KROT_Plan 2015	24,312,511	3,400,000	(537,855)	(720,000)	26,454,656	R$ 9.29
TOTAL	73,266,363	3,400,000	(9,753,657)	(7,077,494)	59,835,212	

(i) In the year ended December 31, 2016, 9,753,657 options were exercised in consideration for the sale of treasury shares. In the year ended December 31, 2015, 4,203,512 options were exercised, with 2,274,219 through a capital increase with the specific objective of delivering these new shares to the beneficiaries and 1,929,293 in consideration for the sale of treasury shares.

Calculation of fair value and expense in the result

The fair value of the shares granted is recognized as an expense. The corresponding entry is recorded in equity as a credit to "Capital reserve - share options".

In the year ended December 31, 2016, R$ 54,986 was recognized as an expense regarding the fair value of the options (R$ 48,119 at December 31, 2015).

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

As from 2015, the Company started to use the Binominal model for the calculation of the fair value of the options of each grant.

The Company did not modify the old grants, in accordance with the standards established in pronouncement CPC 10, which continue to be calculated under the Black and Scholes model.

New Kroton Plan

At the Extraordinary General Meeting held on August 15, 2016, the creation of a new stock option plan of Kroton was approved, aiming to establish the general conditions for the purchase options of registered book-entry common shares with no par value issued by the Company, which will be granted exclusively to the beneficiaries of the (i) Stock Option Plan of Estácio Participações S.A., approved on June 13, 2008, and (ii) future stock option plans to be approved by Estácio, under the same terms of the Current Plan of Estácio, respecting the conditions presented in the "Protocol and Justification of the Merger of the Shares Issued by Estácio into Kroton" signed between Kroton and Estácio on July 8, 2016, and subject to the approval of the respective General Meetings, and the authorization of the transaction by the Fair Trade Commission (CADE).

27. RELATED PARTIES

The balances and transactions between the Company and its subsidiaries and related parties were as follows:

(i) The 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):

(All amounts in thousands of reais unless otherwise stated)

	Effective until	Monthly amount	Adjustment index
Unic Educacional	March 2020	218	IPCA
Unime LF	March 2020	612	IPCA
Iuni	March 2020	1,076	IPCA

(ii) Subsidiary EDE uses properties leased from Creare Administração de Bens Móveis e Imóveis Ltda. (a company that is controlled by members of the Company's Board of Directors). The agreement is effective until January 2020, with a fixed monthly amount of R$ 1,165, adjusted based on the IPCA.

(iii) Anhanguera Educacional Ltda. uses properties leased from HK Campinas Participações Ltda. (which has as a quotaholder AFZ Participações Ltda., a company that is controlled by a family member of one of the members of the Company's Board of Directors). The agreement is effective until December 2024, with a fixed monthly amount of R$ 314 (R$ 284 in June 2015), adjusted based on the IPCA.

a) Remuneration of the key management personnel

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 Ordinary and Extraordinary General Meeting of Stockholders, the annual global remuneration of the Company's key management for the year ended December 31, 2016 was defined at a maximum of R$ 66,688 (R$ 108,302 in December 2015), of which: R$ 38,926 of fixed and variable remuneration, and R$ 27,762 of stock option plan. Key management remuneration is as follows:

TABLE 46 - Management remuneration

	12/31/2016	12/31/2015
Salaries	9,710	5,832
Benefits	924	187
Social charges	2,113	1743
Variable remuneration (i)	23,515	19,962
Stock option plan	24,709	17,476
	60,971	45,200

(i) Variable remuneration established in contract with the statutory officers.

28. 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:

(All amounts in thousands of reais unless otherwise stated)

TABLE 47 - Insurance policies contracted from third-party insurers

	Consolidated	
	12/31/2016	12/31/2015
Fire in property and equipment	318,631	257,764
Civil liability of officers	265,420	196,000
Vehicles	62,507	22,533
	646,558	476,297

29. NET REVENUE FROM SALES AND SERVICES

TABLE 48 - Composition of the net revenue

	Consolidated	
	12/31/2016	12/31/2015
In-class higher education		
Gross revenue	5,131,137	4,950,944
Deductions from gross revenue		
Taxes	(137,443)	(117,076)
ProUni	(673,043)	(635,232)
Discounts	(333,194)	(299,993)
Net revenue	3,987,457	3,898,643
Distance learning higher education		
Gross revenue	1,402,053	1,579,083
Deductions from gross revenue		
Taxes	(30,675)	(31,033)
ProUni	(216,169)	(249,369)
Discounts	(87,327)	(115,438)
Net revenue	1,067,882	1,183,243
Basic education		
Gross revenue	199,794	193,696
Deductions from gross revenue		
Taxes	(5,490)	(4,323)
Returns	(4,925)	(6,201)
Net revenue	189,379	183,172
Total		
Gross revenue	6,732,984	6,723,723
Deductions from gross revenue		
Taxes	(173,608)	(152,432)
ProUni	(889,212)	(884,601)
Discounts	(420,521)	(415,431)
Returns	(4,925)	(6,201)
Net revenue	5,244,718	5,265,058

(All amounts in thousands of reais unless otherwise stated)

30. COSTS AND EXPENSES BY NATURE

TABLE 49 - Composition of the costs and expenses by nature

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Salaries and social charges	(71,311)	(113,977)	(1,781,462)	(1,956,783)
Depreciation and amortization	(148,934)	(148,405)	(401,606)	(379,871)
Rental and condominium fees	-	-	(393,706)	(379,122)
Provision for doubtful accounts	-	-	(347,559)	(268,158)
Utilities, cleaning and security	(107)	-	(212,893)	(221,315)
Advertising and publicity	-	-	(263,677)	(239,288)
Third-party services	-	-	(22,841)	(27,798)
Consulting and advisory services	(518)	(67)	(111,111)	(140,440)
Cost of sales	-	-	(33,319)	(37,221)
Travel	-	(4)	(30,366)	(32,462)
Copyright	-	-	(11,454)	(6,808)
Taxes and contributions	(62)	(267)	(27,324)	(26,162)
Capital gain on Uniasselvi	-	-	253,907	-
Contingencies	35,026	66,023	87,402	62,691
Other income (expenses), net	-	(252)	(142,310)	(116,951)
	(185,906)	(196,949)	(3,438,319)	(3,769,688)
Cost of sales and services	-	-	(2,156,782)	(2,240,874)
Selling expenses	-	-	(666,984)	(586,760)
General and administrative expenses	(185,906)	(196,949)	(854,714)	(941,808)
Other operating income (expenses), net	-	-	(13,746)	(246)
Result on the disposal of Uniasselvi	-	-	253,907	-
	(185,906)	(196,949)	(3,438,319)	(3,769,688)

(All amounts in thousands of reais unless otherwise stated)

31. FINANCE RESULT

TABLE 50 - Composition of the finance result

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Finance income				
Interest on monthly tuition fees	-	-	134,611	108,135
Income from financial investments and marketable securities	2,815	935	114,170	48,951
Discounts obtained	-	-	1,514	3,737
Other	622	-	29,631	3,840
	3,437	935	279,926	164,663
Finance costs				
Debentures - interest and costs (i)	-	(69)	(80,862)	(110,128)
Adjustment of obligations due to the purchase of subsidiaries	-	-	(18,923)	(24,519)
Bank and collection fees	(7)	(22)	(8,819)	(11,060)
Interest and fines for late payments	(9)	22	(7,570)	(4,873)
Interest and fines for late tax payments	-	13	(1,161)	(1,894)
Interest on borrowings	-	-	-	(1,048)
Adjustment of contingencies	(10,765)	-	(31,677)	(32,616)
Other	(181)	(29)	(14,458)	(9,434)
	(10,962)	(85)	(163,470)	(195,572)
Finance result	(7,525)	850	116,456	(30,909)

(i) Refers to the interest on debentures of R$ 101,576 (Note 17 - Debentures), less capitalized interest of R$ 20,714 (R$ 18,386 in December 2015) recorded in property and equipment and intangible assets in progress, for the year ended December 31, 2016.

(All amounts in thousands of reais unless otherwise stated)

32. SEGMENT INFORMATION

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

TABLE 51 - Information per Segment 2016 - Consolidated

	12/31/2016				
	In-class higher education	Distance learning higher education	Basic education	Unallocated	Total
Net revenue	3,987,457	1,067,882	189,379	-	5,244,718
Cost of sales and services	(1,845,512)	(207,134)	(104,136)	-	(2,156,782)
	2,141,945	860,748	85,243	-	3,087,936
Operating income (expenses)					
Selling expenses	(456,107)	(191,224)	(19,653)	-	(666,984)
General and administrative expenses	(310,880)	(69,521)	(8,046)	(466,267)	(854,714)
Result on the disposal of Uniasselvi	-	-	-	253,907	253,907
Other operating income (expenses)	-	-	-	(13,746)	(13,746)
Operating profit (loss) before finance result	1,374,958	600,003	57,544	(226,106)	1,806,399
Assets	5,056,710	4,286,184	127,384	8,130,787	17,601,065
Current and non-current liabilities	1,515,120	782,360	41,895	1,412,326	3,751,701

TABLE 52 - Information per Segment 2015 - Consolidated

	12/31/2015				
	In-class higher education	Distance learning higher education	Basic education	Unallocated	Total
Net revenue	3,898,643	1,183,243	183,172	-	5,265,058
Cost of sales and services	(1,799,850)	(356,118)	(84,906)	-	(2,240,874)
	2,098,793	827,125	98,266	-	3,024,184
Operating income (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 operating income (expenses)	-	-	-	(246)	(246)
Operating profit (loss) before finance result	1,271,699	571,149	56,106	(403,584)	1,495,370
Assets	4,357,476	4,168,936	106,327	8,006,115	16,638,854
Current and non-current liabilities	1,705,949	970,436	37,056	1,465,725	4,179,166

(All amounts in thousands of reais unless otherwise stated)

33. EARNINGS PER SHARE

a) Basic

Basic earnings per share is calculated by dividing the net profit attributable to holders of common shares of the Company by the weighted average number of common shares held by stockholders (excluding treasury) during the period.

TABLE 53 - Basic earnings per share

	12/31/2016	12/31/2015
Profit attributable to stockholders of the Company	1,864,635	1,396,134
Weighted average number of outstanding common shares (thousands)	1,619,308	1,619,121
Basic earnings per common share - R$	1.15	0.86

b) Diluted

The Company offers a stock option plan to the beneficiaries, by means of which it is possible to issue shares at the time the option is exercised. At December 31, 2016, there were shares with the potential for dilution, since their average exercise price was lower than the average price of the Company's shares in the market.

TABLE 54 - Diluted earnings per share

	12/31/2016	12/31/2015
Profit attributable to stockholders of the Company	1,864,635	1,396,134
Weighted average number of outstanding common shares (thousands)	1,619,308	1,619,121
Possible increase in common shares (thousands)	17,796	1,765
Diluted earnings per common share - R$	1.14	0.86

34. EVENTS AFTER THE REPORTING PERIOD

Status of the process of approval by the Fair Trade Commission (CADE) of the business combination of the companies (Kroton and Estácio):

On February 3, 2017, after the closing of the trading session of BM&FBOVESPA, the phase of analysis of this process was completed in the context of the General Superintendency of CADE. This proceeding, pursuant to art. 57, II of Law 12,529/2011 and CADE's Internal Rules, shall be sent to the Court of CADE in the coming days. According to the unbinding opinion, as well as the news published by the press office of CADE on that date, the General Superintendency identified issues of a competition nature, and for this reason, following the process established in Law for these cases, it submitted its objection to the Court of CADE, so that it may assess, according to its judgment, the acceptance of the General Superintendency's recommendation, or possible applicable remedies.

35. APPROVAL OF THE ISSUANCE OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

The issuance of the parent company and consolidated financial statements was approved by the Board of Directors in a meeting held on March 22, 2017.

	2016 (Projection)	1Q16 (Realized)	2Q16 (Realized)	3Q16 (Realized)	4Q16 (Realized)	2016 (Realized)
Net revenue	R$ 5,102 million	R$ 1,268 million	R$ 1,391 million	R$ 707 million	R$ 1,879 million	R$ 5,245 million
EBITDA	R$ 1,928 million	R$ 568 million	R$ 587 million	- R$ 28 million	R$ 961 million	R$ 2,089 million
EBITDA margin	37.8%	44.8%	42.2%	-4.0%	51.2%	39.8%
Interest and late payments on tuitions	R$ 140 million	R$ 39 million	R$ 34 million	R$ 39 million	R$ 23 million	R$ 135 million
Nonrecurring costs and expenses[1]	R$ 150 million	R$ 38 million	R$ 46 million	R$ 48 million	R$ 80 million	R$ 212 million
Adjusted EBITDA	R$ 2,218 million	R$ 607 million	R$ 633 million	R$ 20 million	R$ 1,041 million	R$ 2,300 million
Adjusted EBITDA margin	43.5%	47.8%	45.5%	2.8%	55.4%	43.9%
Profit	R$ 1,522 million	R$ 421 million	R$ 472 million	- R$ 132 million	R$ 859 million	R$ 1,619 million
Amortization of intangible assets[2]	R$ 173 million	R$ 46 million	R$ 45 million	R$ 44 million	R$ 42 million	R$ 177 million
Adjusted profit	R$ 1,845 million	R$ 506 million	R$ 562 million	- R$ 40 million	R$ 981 million	R$ 2,008 million
Capex (total)	8.0% of net revenue	4.1% of net revenue	8.1% of net revenue	14.8% of net revenue	7.9% of net revenue	8.0% of net revenue

[1] Former capital gain of Uniasselvi [2] Goodwill amortization

The first quarter represented the largest contribution to the result of the year as it concentrated a major portion of the students' enrollment for the school year and, therefore, accounted for 25% of net revenue and 27% of the adjusted EBITDA expected in the Company's projection.

The second quarter, despite having less student enrollments than in the first quarter, had a higher average ticket, and, therefore, presented a contribution higher than in the first quarter of the year, responsible for another 27% of the revenue and 29% of EBITDA projected for 2016.

The third quarter, however, was impacted by the delay in the opening of the SisFIES system to effect the re-enrollment of the FIES students, verified in the second half of 2016 process. As a result, the third quarter was responsible for 14% of the net revenue and 1% of the adjusted EBITDA projected for the year, however, it shall be offset in the fourth quarter.

Due to the delay in the opening of the SisFIES, most of the result for the second half of the year was accumulated in the fourth quarter. Therefore, the fourth quarter was responsible for 37% of net revenue and 47% of the projected EBITDA for the year.

In the accumulated of the year, the Company surpassed by 3% its projection for net revenue, by 4% the projection for the Adjusted EBITDA, and by 9% the projection for Adjusted Profit, mainly reflecting the gains in synergy and efficiency, and the strict control over costs and expenses carried out in 2016.

The volume of Capex in relation to the net revenue reached the guidance disclosed by the Company, of 8.0% of net revenue. This amount considers the sale of properties in the period, which amounted to R$ 29.1 million. Excluding such effect, the total investments would be R$ 448.0 million in 2016 or 8.5% of the net revenue for the year.

MINUTES OF THE MEETING OF THE
STATUTORY AUDIT BOARD OF
KROTON EDUCACIONAL S.A.
HELD ON MARCH 22, 2017

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, 2016, and Management's proposal for allocation of the profit for the year ended December 31, 2016. Based on the examinations made, inquiries of the Company's Management and the Company's Independent Auditors, and considering the terms of the Independent Auditor's Report on the Financial Statements, states that the Management Report, Financial Statements, and proposal for allocation of the profit for the year ended 2016 are suitable to be approved by the Company's Stockholders at the Annual General Meeting.

Belo Horizonte, March 22, 2017.

Lucila de Oliveira Carvalho

Ricardo Scalzo

Antônio Lúcio Pereira Santos

Opinions and representations/officers' representation on the financial statements

Kroton's Officers state, pursuant to CVM Instruction 480, dated December 7, 2009, that they have reviewed, discussed and agreed with the financial statements for the year ended December 31, 2016.

Opinions and representations/officers' representation on the independent auditor's report

Kroton's Officers state, pursuant to CVM Instruction 480, dated December 7, 2009, that they have reviewed, discussed and agreed with the content and opinions expressed in the Independent Auditor's Report of PricewaterhouseCoopers Auditores Independentes, issued on March 22, 2017.