(A free translation of the original in Portuguese)

Kroton Educacional S.A.

Parent company and consolidated financial statements at December 31, 2017 and independent auditor's report

BALANCE SHEETS AT DECEMBER 31
(All amounts in thousands of reais - R$) (A free translation of the original in Portuguese)

ASSETS	Note	Parent company 12/31/2017	Parent company 12/31/2016	Consolidated 12/31/2017	Consolidated 12/31/2016 Restatement (Note 2.1)
CURRENT ASSETS					
Cash and cash equivalents	8	200,570	58,390	921,328	940,367
Marketable securities	9	-	-	805,212	403,615
Trade receivables	10	-	-	1,448,662	1,043,905
Inventories	-	-	-	11,540	32,120
Prepayments	12	29	-	48,065	67,600
Taxes recoverable	13	2,308	1,694	102,684	81,423
Other accounts receivable	11	173	68	74,016	75,998
Accounts receivable for the sale of subsidiaries	4	-	-	124,634	-
Total current assets		203,080	60,152	3,536,141	2,645,028
NON-CURRENT ASSETS					
Marketable securities	9	-	-	6,729	5,718
Trade receivables	10	-	-	447,809	596,762
Prepayments	12	-	-	1,680	1,680
Taxes recoverable	13	-	-	5,303	7,062
Other accounts receivable	11	-	-	70,403	52,376
Guarantees for tax, labor and civil losses	23	44,577	57,618	162,222	184,538
Judicial deposits	23	285	408	71,025	45,618
Deferred income tax and social contribution	24	-	-	689,208	528,239
Accounts receivable for the sale of subsidiaries	4	-	-	446,891	498,575
Investments	16	15,878,784	14,813,810	-	-
Property and equipment	14	-	-	1,931,462	1,704,683
Intangible assets	15	63,434	57,744	11,298,889	11,330,786
Total non-current assets		15,987,080	14,929,580	15,131,621	14,956,037
TOTAL ASSETS		16,190,160	14,989,732	18,667,762	17,601,065

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

		Parent company		Consolidated	
LIABILITIES AND EQUITY	Note	12/31/2017	12/31/2016	12/31/2017	12/31/2016
CURRENT LIABILITIES					
Borrowings	17	-	-	3,733	2,426
Debentures	18	-	-	224,034	216,856
Suppliers	-	221	21	314,285	248,090
Salaries and social charges	19	85,527	118,951	328,429	350,881
Income tax and social contribution payable	-	-	358	32,215	23,987
Taxes payable	-	321	336	61,756	74,588
Advances from customers	20	-	-	163,103	131,727
Taxes and contributions payable in installments	21	-	-	10,612	10,826
Accounts payable - acquisitions	22	-	-	107,907	86,948
Dividends payable	25	92,780	89,703	92,780	89,703
Other payables	-	21	17	6,680	9,388
Total current liabilities		178,870	209,386	1,345,534	1,245,420
NON-CURRENT LIABILITIES					
Borrowings	17	-	-	33,614	36,003
Debentures	18	-	-	42,500	288,717
Provision for tax, labor and civil losses	23	109,244	186,079	590,239	787,025
Taxes and contributions payable in installments	21	-	-	37,793	41,568
Accounts payable - acquisitions	22	-	-	14,879	60,218
Deferred taxes	24	694,320	744,903	1,370,041	1,267,691
Other payables		-	-	25,436	25,059
Total non-current liabilities		803,564	930,982	2,114,502	2,506,281
TOTAL LIABILITIES		982,434	1,140,368	3,460,036	3,751,701
EQUITY	25				
Share capital		4,363,825	4,249,901	4,363,825	4,249,901
Capital reserves		6,339,682	6,309,059	6,339,682	6,309,059
Treasury shares		(2,506)	(29,548)	(2,506)	(29,548)
Revenue reserves		4,506,725	3,319,952	4,506,725	3,319,952
Total equity		15,207,726	13,849,364	15,207,726	13,849,364
TOTAL LIABILITIES AND EQUITY		16,190,160	14,989,732	18,667,762	17,601,065

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

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

		Parent company		Consolidated	
	Note	12/31/2017	12/31/2016	12/31/2017	12/31/2016
NET REVENUE FROM SALES AND SERVICES					
Higher education	29	-	-	5,380,361	5,055,339
Basic education	29	-	-	177,387	189,379
		-	-	5,557,748	5,244,718
COST OF GOODS AND SERVICES					
Cost of services rendered	30	-	-	(2,076,883)	(2,123,463)
Cost of sales	30	-	-	(29,007)	(33,319)
		-	-	(2,105,890)	(2,156,782)
GROSS PROFIT		-	-	3,451,858	3,087,936
OPERATING INCOME (EXPENSES)					
Selling expenses	30	-	-	(941,876)	(666,984)
General and administrative expenses	30	(92,310)	(185,906)	(839,198)	(854,714)
Other operating income (expenses)	30	-	-	(1,837)	(13,746)
Equity in the results of investees	16	1,919,862	2,007,481	-	-
Result on the sale of subsidiaries	4	-	-	25,560	253,907
OPERATING PROFIT BEFORE FINANCE RESULT		1,827,552	1,821,575	1,694,507	1,806,399
FINANCE RESULT					
Finance income	31	9,202	3,437	321,026	279,926
Finance costs	31	(3,987)	(10,962)	(94,938)	(163,470)
OPERATING PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		1,832,767	1,814,050	1,920,595	1,922,855
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	24	(1,035)	-	(97,000)	(61,973)
Deferred	24	50,584	50,585	58,721	3,753
		49,549	50,585	(38,279)	(58,220)
PROFIT FOR THE YEAR		1,882,316	1,864,635	1,882,316	1,864,635
Basic earnings per common share - R$	33	1.16	1.15	1.16	1.15
Diluted earnings per common share - R$	33	1.14	1.14	1.14	1.14

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31
(All amounts in thousands of reais - R$) (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Profit for the year	1,882,316	1,864,635	1,882,316	1,864,635
Other comprehensive income (loss)	-	-	-	-
COMPREHENSIVE INCOME FOR THE YEAR	1,882,316	1,864,635	1,882,316	1,864,635
Attributable to owners of the parent	1,882,316	1,864,635	1,882,316	1,864,635
Attributable to non-controlling interests	-	-	-	-

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

STATEMENTS 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	Additional dividends	Total equity
AT DECEMBER 31, 2015	4,249,901	114,312	6,152,187	(96,139)	155,098	1,698,329	186,000	-	-	12,459,688
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	-	1,864,635	-	1,864,635
Total comprehensive income for the year	-	-	-	-	-	-	-	1,864,635	-	1,864,635
Contributions by and distributions to owners of the parent										
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)
Allocation of profit for the year										
Legal reserve	-	-	-	-	93,232	-	-	(93,232)	-	-
Mandatory minimum dividends (25%)							-	(584,110)	-	(584,110)
Additional dividend proposed (10%)	-	-	-	-	-	-	-	(35,881)	35,881	-
Investment reserve	-	-	-	-	-	1,151,412	-	(1,151,412)	-	-
Total contributions by and distributions to owners of the parent	-	42,560	-	66,591	93,232	1,151,412	-	(1,864,635)	35,881	(474,959)
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
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	-	1,882,316	-	1,882,316
Total comprehensive income for the year	-	-	-	-	-	-	-	1,882,316	-	1,882,316
Contributions by and distributions to owners of the parent										
Capital increase	113,924	-	-	-	-	-	-	-	-	113,924
Treasury shares sold	-	-	-	27,042	-	-	-	-	-	27,042
Treasury shares acquired	-	-	-	-	-	-	-	-	-	-
Options granted	-	42,729	-	-	-	-	-	-	-	42,729
Result on sale of treasury shares	-	(12,106)	-	-	-	-	-	-	-	(12,106)
Additional payment of dividends referring to 2016	-	-	-	-	-	-	-	-	(35,881)	(35,881)
Allocation of profit for the year										
Legal reserve	-	-	-	-	94,116	-	-	(94,116)	-	-
Mandatory minimum dividends (25%)	-	-	-	-	-	-	-	(447,050)	-	(447,050)
Additional dividends approved	-	-	-	-	-	-	-	(212,612)	-	(212,612)
Additional dividends proposed	-	-	-	-	-	-	-	(55,669)	55,669	-
Investment reserve	-	-	-	-	-	1,072,869	-	(1,072,869)	-	-
Total contributions by and distributions to owners of the parent	113,924	30,623	-	27,042	94,116	1,072,869	-	(1,882,316)	19,788	(523,954)
							-			
AT DECEMBER 31, 2017	4,363,825	187,495	6,152,187	(2,506)	342,446	3,922,610	186,000	-	55,669	15,207,726

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

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

	Note	Parent company 12/31/2017	Parent company 12/31/2016	Consolidated 12/31/2017	Consolidated 12/31/2016 Restatement (Note 2.1)
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax and social contribution		1,832,767	1,814,050	1,920,595	1,922,855
Adjustments to reconcile profit before income tax and social contribution					
Depreciation and amortization	14 and 15	148,978	148,934	416,714	401,606
Provision for impairment of receivables	10	-	-	583,180	347,559
Provision (reversal) for tax, labor and civil losses	23	(67,243)	(23,522)	(74,413)	(55,401)
Provision for inventory losses		-	-	557	(47)
Financial charges on borrowings and debentures		-	-	61,248	107,067
Financial charges on acquisitions		-	-	8,482	46,385
Grant of stock options		42,729	54,986	42,729	54,986
Result on the sale of subsidiaries		-	-	(25,560)	(253,907)
Result from the sale or write-off of assets and other investments		-	-	2,941	(14,808)
Equity in the results of investees	16	(1,919,862)	(2,007,481)	-	-
Changes in operating assets and liabilities:					
(Increase) decrease in trade receivables		-	-	(838,984)	(378,472)
(Increase) decrease in inventories		-	-	20,023	(537)
(Increase) decrease in prepayments		(29)	2	19,535	(17,519)
(Increase) decrease in taxes recoverable		(85)	86	54,013	42,709
(Increase) decrease in judicial deposits		123	(433)	(25,407)	(5,209)
(Increase) decrease in other receivables		(105)	(234)	(45,795)	7,176
(Decrease) increase in trade payables		200	(79)	88,918	25,485
(Decrease) increase in salaries and social charges		(33,424)	16,325	(22,452)	5,204
(Decrease) increase in taxes payable		(1,408)	(50,893)	(101,502)	(118,703)
(Decrease) increase in advances from customers		-	-	31,376	135
(Decrease) increase in taxes and contributions payable in installments		-	-	(3,989)	(5,222)
Guarantees of provision for tax, labor and civil losses	23	3,449	(1,185)	(100,057)	(96,658)
Increase (decrease) in other accounts payable		(2,710)	50,557	(24,999)	(1,150)
Cash provided by operations		**3,380**	**1,113**	**1,987,153**	**2,013,534**
Income tax and social contribution paid		(529)	(74)	(73,515)	(80,843)
Payment of interest on loans and debentures	18	-	-	(87,234)	(112,579)
Cash provided by operating activities		**2,851**	**1,039**	**1,826,404**	**1,820,112**
CASH FLOWS FROM INVESTING ACTIVITIES:					
Redemption of (investment in) marketable securities		-	-	(402,608)	(34,094)
Purchases of property and equipment	14	-	-	(387,246)	(290,378)
Additions to intangible assets	15	-	-	(210,109)	(155,122)
Accounts payable for acquisitions	22	-	-	(55,473)	(81,993)
Receipt on sale of Uniasselvi		-	-	-	400,000
Cash delivered on the sale of subsidiaries		-	-	(186)	(11,545)
Receipt on the sale of non-current assets		-	-	-	9,905
Dividends received from subsidiaries	16	702,826	562,805	-	-
Accounts receivable from former owners		-	-	(12,189)	(20,194)
Net cash provided by (used in) investing activities		**702,826**	**562,805**	**(1,067,811)**	**(183,421)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital increase		113,924	-	113,924	-
Disposal (acquisition) of treasury shares		14,936	54,165	14,936	54,165
Payment of debentures	18	-	-	(208,333)	(208,333)
Repayments of borrowings		-	-	(5,802)	(6,349)
Dividends paid to stockholders		(692,357)	(564,518)	(692,357)	(564,518)
Net cash used in financing activities		**(563,497)**	**(510,353)**	**(777,632)**	**(725,035)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		142,180	53,491	(19,039)	911,656
Cash and cash equivalents at the beginning of the year	8	58,390	4,899	940,367	28,711
Cash and cash equivalents at end of year	8	200,570	58,390	921,328	940,367
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**142,180**	**53,491**	**(19,039)**	**911,656**

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

STATEMENTS 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	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
REVENUE				
Higher education	-	-	5,380,361	5,055,339
Basic education	-	-	177,387	189,379
Revenue from sale of subsidiaries	-	-	44,956	877,380
Other income	-	-	5,935	53,835
Provision for impairment of trade receivables	-	-	(583,180)	(347,559)
INPUTS PURCHASED FROM THIRD PARTIES				
Cost of sales and services	-	-	(14,843)	(33,319)
Materials, electricity, third-party services and other	60,557	34,403	(743,893)	(845,207)
Write-off of goodwill of subsidiaries	-	-	(9,273)	(525,687)
GROSS VALUE ADDED	60,557	34,403	4,257,450	4,424,161
Depreciation and amortization	(148,978)	(148,934)	(416,714)	(401,606)
NET VALUE ADDED	(88,421)	(114,531)	3,840,736	4,022,555
VALUE ADDED RECEIVED THROUGH TRANSFER				
Equity in the results of investees	1,919,862	2,007,481	-	-
Finance income	9,202	3,437	321,026	302,537
TOTAL VALUE ADDED TO DISTRIBUTE	1,840,643	1,896,387	4,161,762	4,325,092
Personnel:				
Direct remuneration	1,053	64,603	1,189,793	1,276,833
Benefits	-	-	98,073	86,289
Social charges	2,562	6,708	409,543	418,340
Taxes, fees and contributions:				
Federal	(49,288)	(50,527)	46,917	59,072
State	7	5	480	895
Municipal	6	1	31,891	25,483
Remuneration of third-party capital:				
Finance costs	3,987	10,962	94,938	188,385
Rentals	-	-	400,600	393,706
Copyright	-	-	7,211	11,454
Remuneration of own capital:				
Profits retained for the year	1,882,316	1,864,635	1,882,316	1,864,635
VALUE ADDED DISTRIBUTED	1,840,643	1,896,387	4,161,762	4,325,092

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

(A free translation of the original in Portuguese)

MANAGEMENT REPORT 2017

Dear Shareholders,

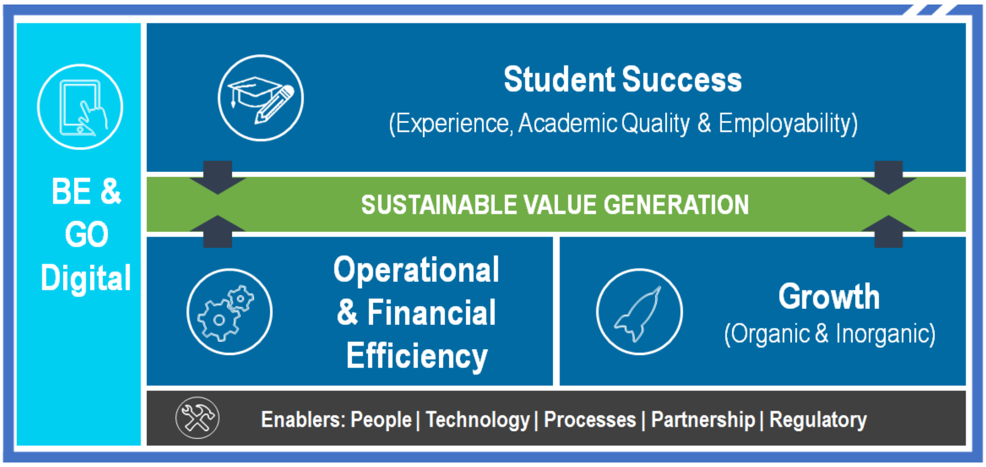
In accordance with governing law, the Management of Kroton Educacional S.A. ("Kroton" or the "Company") is pleased to present its Management Report and Financial Statements for the fiscal year ended December 31, 2017, with comparisons in relation to fiscal year 2016. The consolidated financial statements 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 (B3: KROT3; OTCQX: KROTY) is a private education organization with nationwide operations in all Brazilian states and 26,156 employees. It operates in the Primary & Secondary Education and Postsecondary Education segments, with a comprehensive offering of Undergraduate, *latu sensu* Graduate, Master's and Doctoral programs in the On-Campus and Distance Learning formats. As of December 31, 2017, Kroton had approximately 876,000 Postsecondary students in both the On-Campus and Distance Learning formats, spread across its 119 campuses and 1,110 Distance Learning centers. In addition, Kroton's offering is complemented by Preparatory Courses under the brand LFG, Unregulated Programs and Language courses. In Primary and Secondary Education, through the offer of its Learning System, Kroton served 672 Associated Schools and approximately 220,000 students from private schools across the country.

Message from Management

2017 was a challenging year for Kroton. We were tested in relation to our capacity of maintaining efficiency levels in a scenario of a sharp reduction in FIES students due to the graduation of large classes enrolled in prior semesters, combined with high unemployment and increased competition. We surmounted these challenge, as shown by our results. However, in parallel, we are carrying out a silent revolution, with an in-depth debate on the Company's future and the strategies that will guarantee our success in the long term. These discussions were conducted in a structured format in a Strategic Planning process that involved 100 leaders and more than 4,500 hours of work over 8 months. A very objective, complete and clear strategic map recognized by our leaders has redefined the course of our organization.



Student Success is the structural pillar of this new strategy. To us, our students' success means an exceptional experience in their on-campus or digital activities, in the classroom or in support services, high regulatory scores for our programs and institutions and, above all, employability, which is understood as access to and upward mobility in the labor market, measured by income growth. With more success, we increase student loyalty, strengthen our brands and help keep efficiency levels high.

And we will ensure Student Success while maintaining the high operational and financial efficiency levels we have attained over the past few years. The relentless pursuit of efficiency gains is and will continue to be a part of our corporate DNA. Another fundamental pillar of our strategy is growth, and we see various opportunities for organic and inorganic expansion in our current core business (Undergraduate) and expanded core business (Primary & Secondary Education and Continuing Education), and have launched studies to assess opportunities to take the Education competencies with quality and scale achieved in Brazil to other countries. All these initiatives are made possible by a very clear digital strategy, which will seek to further expand students' digital experience (go digital) and build a new culture and new digital mindset (be digital).

Therefore, MAINTAIN, GROW and TRANSFORM are the words that, based on Kroton's Strategic Planning, will guide our actions in the short, medium and long term. Maintain high efficiency levels in our operations, Grow in the current businesses and in new businesses, in current or new geographies, and Transform the Company with the ambition to make it the world's most digital education company.

These are not trivial challenges, as also were not the ones we faced in 2010 or in 2015, but we have a robust Company, a solid culture and a group of highly qualified and engaged people to overcome them.

In terms of maintaining efficiency levels, Kroton was able to grow by 9.3% the number of new enrollments in the two student-recruiting processes conducted last year and to deliver in full the guidance given in early 2017. We recorded a net revenue of R $ 5.5 billion (+ 7.1% over 2016), adjusted EBITDA of R $ 2.4 billion (+ 7.9% over 2016), with a margin of 44.1% % and a net income of R $ 2.2 billion (13.1% above 2016), with a margin of 40.3%.
This performance clearly shows that the Company has been able to overcome all of it is short-term challenges with an increasingly efficient and sustainable operation. It is true that we faced negative

factors that affected our performance, such as the slight decline in our student base due to the higher volume of graduations and dropouts and the higher level of provisioning to support the Company's offering of student installment plans. However, these pressures already were expected and so we prepared the Company to neutralize the adverse effects, which also allowed us to capture some profitability gains in the year. The same levers tapped in 2017 remain available in 2018, such as the maturation of our academic model, the higher number of digital content in the On-campus curriculum, the strategic sourcing program and the initiatives related to collections and retention programs. Hence, the future is bright. 2017 also was marked by strong cash generation, giving Kroton a unique capital structure, with total cash and cash equivalents in excess of R$2.2 billion. As a result, the Company was able to increase – already at the start of the year – the distribution of dividends from 35% of net income to 40%, a level that should be maintained in 2018, further maximizing returns for its stakeholders.

And to crown this performance, the past year also saw Kroton's best ever performance on the ENADE exam, with an increase of 28 percentage points in satisfactory scores, attesting to the effectiveness of the academic model and the efforts made to deliver a high-quality, inclusive education that increasingly promotes our students' career advancement. We also focused intensely on social responsibility, through projects that can transform the lives of people in various areas and that directly impact our country's development. In 2017, 2,167 social projects impacted 1.5 million people through 500 supported organizations. At our units, 1.9 million people benefitted from 2.3 million *pro bono* healthcare and legal services. At official prices, this would amount to R$379 million in procedures provided free of charge to underprivileged communities near our operations. This effort was further strengthened by all of projects conducted by the Pitágoras Foundation, which has played an important and transformational role in supporting the public school system in Brazil.

In relation to the growth pillar, Kroton's strategy is based on four vectors: the first addresses the Undergraduate segment, the Company's core business, for which we set a long-term goal (2028) which will be able to add up to 650,000 new students to our base, generating potential EBITDA of R$1 billion. To achieve this, we plan to open 112 own units and over 1,780 partner centers to expand our geographic footprint and markets. We also will continue the project to expand the program portfolio, further increasing the addressable market. To illustrate this movement, in the last year alone, we opened 14 new campuses in the On-Campus segment and 300 new DL centers and worked intensely to expand the offering of Premium DL programs by adding 153 centers capable of offering the product and expanding the portfolio by nearly 1,500 offerings. The second pillar is related to Continuing Education, a segment offering a vast potential market with annual revenue of R$6.2 billion, but which had not been given priority at Kroton. Recently, the segment has gained newfound autonomy, with its own recruiting, development, systems and management teams, which should start yielding results in the near term. The third pillar is Primary & Secondary Education, a project that already has been widely discussed by the Company, which involves managing own schools and the beginning of a consolidation in the industry. In this regard, we are very pleased to announce that we are in the final phase of concluding the acquisition of the first two schools, objectively launching the project at the Company. And, to finalize, the last pillar in this growth project is the international expansion of our operations, which is now considered a concrete opportunity for Kroton. We are conducting the necessary studies to determine the paths to be taken in this strategy.

With regard to transformation, we are very pleased to announce the first concrete results of Kroton's digital transformation journey. We are in the process of implementing an agile development model across the company, supported by the Scale Agile Framework (SAFe). By year-end, we will have over 400 people on 55 agile teams focusing on 10 agile delivery trains, supporting 22 value streams and ensuring 770,000 hours of development. It is a relevant and bold cultural change that places Kroton among the few Brazilian companies with 100% of their development teams working on agile teams. And this is undoubtedly an important step in our digital transformation.

We have numerous projects and ambitions on the horizon and are increasingly excited about what the future holds for us. The opportunities are many, and our will is even greater.

Macroeconomic Scenario

Brazil's climate of political uncertainty and tension persisted in 2017, although signs of recovery in key indicators can already be seen, such as the GDP growth of 1% after two straight years of reduction, bringing the country's GDP back to the same level, in real terms, of 2011. Likewise, per-capita GDP posted growth of 0.2% after three years of contraction. Although still below the optimism threshold of 100 points, the Consumer Confidence Index (ICC) increased from 73.3 in 2016 to 86.4 in 2017. The Business Confidence Index (ICE) also rose, reaching 93.1 points at the end of 2017, which is the highest level since April 2014. The average unemployment rate, as measured by the National Household Survey (PNAD), remained at high levels, closing the year at 11.8%, which corresponds to 12.3 million unemployed people. The slow economic recovery also had a direct effect on the path of inflation, which fell to its lowest level since 1998. The IPCA consumer price index stood at 2.95% in the year, decreasing 3.34 p.p. from 6.29% in 2016. Seeking to stimulate the economy, the government made a series of cuts to the basic interest rate, from 13.75% at the end of 2016 to 7.00% at the end of 2017, which is the lowest year-end rate ever recorded. Compared to previous years, exchange rate volatility was low, with the Brazilian real to U.S. dollar exchange rate starting the year at R$3.27/US$ and closing it at R$3.31/US$. The average exchange rate in 2017 was R$3.19/US$, with the Brazilian real appreciating in relation to the average rate of R$3.48/US$ in 2016. Considering the impact from the macroeconomic scenario on its operations, especially from unemployment, Kroton worked to implement and develop new efficiency levers and to improve its offering of products and services, while constantly focusing on its students' employability.

Disposal of FAIR/FAC/FAMAT

On August 31, 2017, Kroton concluded the sale of all shares held by its subsidiaries in the companies that operated the following institutions: Faculdades Integradas de Rondonópolis, Instituto de Ensino Superior de Cuiabá and Faculdade de Mato Grosso ("FAIR, FAC/FAMAT") to Treviso Empreendimentos e Participações S.A., a company held by private equity funds managed by TCG Gestor Ltda., Santander Securities Services Brasil DTVM S.A. and Vinci Capital Gestora de Recursos Ltda. The estimated transaction value was fifty million reais (R$50,000,000.00), subject to any final adjustments for working capital and net debt, in accordance with the sale agreement. The divestment of FAIR, FAC/FAMAT was connected to the sale of Uniasselvi, which in turn was ordered by Brazil's antitrust agency CADE as a remedy for approving the merger with Anhanguera.

Operating Performance

In the Postsecondary Education segment, the Company ended 2017 with 876,140 students, of whom 841,264 were enrolled in Undergraduate programs (On-Campus and Distance Learning) and 34,876 were enrolled in Graduate programs (On-Campus and Distance Learning). This figure represents a decline of 3.6% compared to the student base at the end of 2016, which is partially explained by the sale of the FAIR and FAC/FAMAT units at the end of August to comply with the CADE order under the remedy for the Anhanguera acquisition. The reduction in the student base also is explained by the higher number of graduations during 2017, due to the strong admissions in 2013 and 2014, as well as the change in the student-base profile, with fewer FIES students, who historically have lower dropout rates. Furthermore, the persistently high unemployment rate, coupled with the very slow economic recovery, pressured the dropout rate, which adversely affected the student base. Excluding factors beyond Kroton's control, such as economic indicators, the resilience and effectiveness of its commercial strategy in recent student-recruiting cycles becomes clear, with solid and consistent results.

Kroton closed the year with 144,878 FIES students, down 24.3% from the end of 2016, which accounted for 38.6% of the On-Campus Undergraduate student base and 17.2% of the total Undergraduate base, representing declines of 7.8 p.p. and 4.6 p.p., respectively, on the previous year. The importance of FIES in Kroton's student base continued to decline, accounting for only 8% of new On-Campus Undergraduate students in the second semester of 2017, or less than 3% of total admissions into Undergraduate programs. The reduction in new FIES students was offset by the resilience in the base of students paying out of pocket and by Kroton's recently launched offering of installment payment products.

Since 2015, Kroton has been offering Private Special Installment Plans (PEP) that currently are available in two formats: PEP30 and PEP50. In PEP30, students start the cycle paying 30% of their monthly tuition, which gradually increases to 40%, 50% and 60% in subsequent years, remaining at the highest rate also during the amortization period. Meanwhile, under PEP50, students pay 50% of their monthly tuition throughout their entire academic program and amortization period. Specifically regarding the amortization period, both products give graduates a period equal to the length of their program to repay the accumulated debt interest-free, subject only to annual inflation adjustments of the monthly tuition fee. Kroton maintained the same conservative policies for recognition of Adjustment to Present Value (APV) in revenue and provisioning of 50% of the installments for all PEP students. At the end of 2017, the Company had 49,000 PEP students, equivalent to 13.7% of the On-Campus Undergraduate base and to 5.8% of the total Undergraduate base, representing increases of 3.0 p.p. and 0.8 p.p., respectively, from 2016.

In the case of Pronatec (*Bolsa Formação* category), it is important to note that the last classes of the program graduated in the first semester of 2017.

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 2017, Kroton served around 220,000 students in private schools, or 3.5% fewer than in the prior year, while the number of Associated Schools in the private network stood at 672, or 0.4% more than in 2016.

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 registered an average of 25,938 students during 2017 (these students are not considered in the Postsecondary student base above), which represents a decline of 3.7% on the prior year.

Kroton also offers short-duration open enrollment programs that allow students to increase their knowledge in various fields, such as Management, Education, Mathematics and Languages. In the whole 2017, we offered these programs to 96,589 students (also not considered in the total number of Postsecondary students reported above), up 4.0% from the previous year.

Ministry of Education (MEC) Evaluations

Ratio	Below 3	Equal to 3	Above 3	Equal to or Above 3
Course Concept (CC)	0.8%	42.7%	56.6%	99.2%
Institutional Concept (CI)	0.0%	66.7%	33.3%	100.0%

At the end of 2017, 99.2% of the academic programs and 100.0% of the institutions that form Kroton received evaluations ranging from satisfactory to excellent, which attests to the continuous evolution in Kroton’s teaching quality across all educational services offered to students.

With regard to the regulatory results achieved in 2016 (released at end-2017), Kroton once again presented improvement, with 96% satisfactory scores in the General Program Index (IGC) and 91% satisfactory scores in the Preliminary Program Concept (CPC). In the Performance Difference Indicator (IDD) between ENADE and ENEM examinations, Kroton obtained a satisfactory score for 85% of its academic programs. This indicator is extremely important, since it attests to the effective evolution in students’ learning from when they first enter their Postsecondary program until they graduate. Lastly, 72% of the ENADE scores in 2016 were satisfactory, an improvement of 24 p.p. compared to the last evaluation cycle of the health and agrarian sciences programs in 2013, which includes 100% of Medical programs and postsecondary technology programs (CSTs) obtaining satisfactory scores. These indicators reflect Kroton’s efforts and investments in teaching excellence, innovation and improving the student experience, and attest to the benefits for students of the KLS 2.0 academic model, since this was the first area to be evaluated after the model’s introduction.

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:* in 2017, Kroton recorded gross revenue of R$ 7,151.6 million, up 6.2% on the prior year, driven by the positive results of the enrollment and re-enrollment processes in both the On-Campus and Distance Learning Postsecondary Education, despite the challenging macroeconomic scenario, and by the initial impacts from the new campuses and centers inaugurated in 2017. The result also benefited from the higher average ticket of On-Campus programs, which in turn was supported by the better program mix and the annual tuition increases. These effects more than offset the revenue lost from the divestment of assets

(FAIR, FAC/FAMAT) in August. As a result, net revenue came to R$ 5,557.7 million, advancing 6.0% on 2016, in line with the behavior observed in gross revenue.

- *Cost of Goods and Services Sold:* in 2017, Kroton's total costs came to R$ 2,105.9 million, corresponding to 37.9% of net revenue, down 3.2 p.p. from the prior year, benefiting from the ongoing efficiency gains and the austerity in costs and expenses. Cost of services rendered corresponded to 98.6% of total costs due to the higher share of the Company's Postsecondary Education operations.

    - Costs of goods sold are mainly related to the costs with publishing and printing the teaching materials sold to the Associated Schools in the Primary & Secondary Education Segment. In 2017, these costs reached R$ 29.0 million, corresponding to 16.4% of net revenue from Primary & Secondary Education, down 1.2 p.p. from the prior year, reflecting the more efficient management of the Company's distribution logistics operations.

    - Costs of services are primarily related to the operation of Postsecondary Education units. In 2017, these costs came to R$ 2,076.9 million, corresponding to 37.4% of consolidated net revenue, down 3.1 p.p. from 2016, reflecting economies of scale and efficiency and synergy gains, especially with the roll out of the Operational Research software and KLS 2.0 academic model, which optimized classroom hours and the use of facilities at the On-campus units. Other relevant projects included (i) the cost reductions achieved with the strategic sourcing project, which is currently in wave 5; (ii) the higher number of interactive courses in the curriculum; and (iii) the efficiency gains in costs with Distance Learning, which include optimizing the online tutoring process, converting the Anhanguera commercial model to the Unopar commercial model and the higher proportion of 100%-online students, which have a leaner cost structure.

- *Gross Income and Gross Margin:* gross income reached R$ 3,451.9 million in fiscal year 2017, growing 11.8% from the previous year, with margin expansion of 3.2 p.p. to 62.1%, driven by revenue growth and operating efficiency gains, as described above.

- *Operating Expenses:* operating expenses amounted to R$ 1,757.3 million, corresponding to 31.6% of net revenue, an increase of 7.2 p.p. on the prior year. Operating expenses are divided into three major lines, namely:

    - General and Administrative Expenses: incurred by the business segments, these include mainly expenses with administrative personnel, consulting services, travel and outsourcing. This group of expenses amounted to R$ 839.2 million in 2017, or 15.1% of net revenue, an improvement of 1.2 p.p. compared to 2016, reflecting the efforts made to control operating expenses and the initiatives to streamline headcount to increase operating efficiency.

    - Selling Expenses: these are expenses with the sales team, advertising and marketing, copyrights and the Provision for Doubtful Accounts (PDA). In 2017, this group of expenses amounted to R$ 941.9 million, corresponding to 16.9% of net revenue, up 4.2 p.p. from 2016:

- Sales team, advertising and marketing and copyrights: together, these expenses reached R$ 358.7 million, representing 6.5% of net revenue, an increase of 0.7 p.p. from 2016, reflecting the anticipation of sales campaigns for the student-recruiting process at the start of the year and the brand-promotion actions for the new on-campus units and new DL centers opened in new markets.

- Provision for Doubtful Accounts (PDA): Kroton uses a model for provisioning losses from student receivables based on historical behavior and trends in the recovery curves of these receivables over a 365-day cycle. The amount of PDA accrued covers this entire receivables cycle as from the month of billing. Amounts not received within 365 days are fully written off from Assets. However, all receivables related to trade accounts over 365 days already written off are recognized directly in the profit or loss. Based on this criterion, PDA in 2017 stood at R$ 583.2 million, or 10.5% of net revenue, increasing 3.9 p.p. on 2016, The higher provisioning is explained by the growth in the student base supported by the Private Special Installment Plan (PEP), for which Kroton adopts a conservative policy of provisioning for 50% of the financed balance of all PEP students, and by the introduction of the Late Enrollment Installment Plan (PMT), which, like PEP, adopts a policy of provisioning for 50% of the financed balance. Lastly, this indicator also was pressured by the deterioration in unemployment rates and the larger base of 100%-online DL students, who have a higher propensity to drop out.

- Other Operating Income (Expenses): This line reached positive R$ 23.7 million in 2017, corresponding to 0.4% of net revenue, down 4.2 p.p. year-on-year, considering the impact from the capital gain from the Uniasselvi divestment in 2016, which was considerably higher than the capital gain from the sale of FAIR and FAC/FAMAT in 2017.

- *EBITDA:* in 2017, Kroton recorded adjusted EBITDA of R$ 2,450.7 million, advancing 6.5%, with margin of 44.1%, expanding 0.2 p.p. on the previous year. The result is explained by the revenue growth, efficiency levers and cost controls discussed above. Interest and late fees on overdue tuitions are included in the EBITDA figure. Including non-recurring expenses events (negative R$ 194.4 million related to severance payments, restructuring of units, M&A and expansion projects and other projects, which were partially offset by the positive impact of the capital gain from the divestment of FAIR/FAC/FAMAT), EBITDA was R$ 2,256.3 million in 2017, with margin of 40.6%, down 5.3 p.p. on the prior year, explained by the impact of the capital gain from the divestment of Uniasselvi in 2016.

- *Debt:* Kroton ended fiscal year 2017 with net cash of R$ 1,306.6 million, an increase of 98.4% from the net cash recorded in 2016, benefiting from the strong cash generation and normalization of the FIES payment flow, including the receipt of another 25% of outstanding FIES installments from 2015 (PN23). Note that Kroton also holds short- and long-term receivables, including the remaining 50% of outstanding FIES installments from 2015 and the receivables from the sales of Uniasselvi and FAIR/FAC/FAMAT. Therefore, adding all short-term and long-term receivables, the net cash balance was even more robust, surpassing R$2.2 billion and placing Kroton in a unique position in terms of its capital structure.

- *Financial Result:* the financial result was R$226.1 million, increasing 94.1% from 2016, reflecting the Company's larger cash position and the consequent impact on the line interest income.

- *Income Tax and Social Contribution:* Income Tax and Social Contribution was negative R$ 38.3 million, compared to negative R$ 58.2 million in 2016.

- *Net Income:* net income amounted to R$ 1,882.3 million in 2017, up 0.9% on the previous year, with margin of 33.9%, down 1.7 p.p. from 2016. Excluding the amortization of intangible assets, non-recurring expenses and the proceeds from the FAIR, FAC/FAMAT divestment, already net of Income Tax and Social Contribution, adjusted net income amounted to R$ 2,240.3 million in 2017, advancing 11.6% on the prior year, with net margin expanding 2.0 p.p. to 40.3%.

- *Investments:* total investments came to R$490 million, corresponding to 8.8% of net revenue, up 2.0 p.p. on the prior year, given the higher funding needs for content development and the investments in expansions and improvements at current units required to ensure the Company's long-term sustainability and growth. Including as well the investments related to special projects, including the acquisition (or sale) of properties, the opening of new units (greenfield projects) and the construction of buildings to maintain the stronger growth pace, investments amounted to R$ 595.3 million, corresponding to 10.4% of net revenue, next year's expectation of initial investment towards the end of the year.

Corporate Governance, Investor Relations and Awards

The Company's stock traded under the ticker KROT3 is listed on the Novo Mercado, the listing segment of the São Paulo Stock Exchange (B3) with the highest 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 & Institutional 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 Fiscal Council formed by four 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, Audit and Compliance Department, whose main objectives are to: (a) map and manage the risks to which the Company is exposed; (b) conduct independent audits of the business areas; (c) apply all compliance practices through policies, standards and procedures; and (d) manage and investigate reports received via 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 2017, the Company advanced the scope of the Controls, Audit and Compliance Department to include the mapping and audit of 100% of material processes. Furthermore, excellent results were achieved in the formalization of processes through policies, procedures and regular employee training.

Upholding a commitment to ensure transparent and diligent reporting of Kroton's results and performance, the Investor Relations (IR) Area organized more than 35 events for the financial community in 2017, which included conferences with Brazilian and international analysts and investors, local and international road shows, and in-house events such as Kroton Day. In recognition of this work, the Company once again was awarded by *IR Magazine* in the categories "Best IR by a CEO or CFO" and "Best Investor Relations Executive (Large Cap)." Kroton also was recognized in seven categories of the awards sponsored by *Institutional Investor* magazine: "Best Investor Relations Program," "Best CEO," "Best CFO," "Best Investor Relations Professional," "Best Investor Relations Team," "Best Investor Day" and "Best Website." Other awards garnered in the year include 1st Place in the category Services category of the Valor Innovation Awards, 1st Place in the category Education of the Valor 1000 Awards, 1st Place for UNOPAR in the category Distance Learning Institutions for Faculty, 1st Place for the Pitágoras Network in the category Learning Systems for Private Networks in Primary & Secondary Education in the Top Education Awards, and 1st Place in the category Education of the "Estadão Empresas Mais" Awards.

Capital Markets

Kroton stock is a component of several indexes, including the Bovespa Index (IBOV), Brazil 100 Index (IBrX100), Brazil 50 Index (IBrX50), Broad Brazil Index (IbrA), Special Corporate Governance Stock Index (IGC), Special Tag-Along Stock Index (ITAG), Corporate Governance Trade Index (IGCT), Corporate Governance Index - Novo Mercado (IGC-NM), Mid-Large Cap Index (MLCX), Consumption Sector Index (ICON) and Morgan Stanley Capital International Index (MSCI Brazil). In 2017, Kroton stock, listed on the B3 under the ticker KROT3, was traded in 100% of trading sessions, with average daily financial trading volume of R$143.3 million, and gained 38.0% in the year, while the Bovespa Index increased 26.9%. On December 28, 2017, Kroton's market capitalization stood at R$30.2 billion.

The Meeting of the Board of Directors held on June 28, 2017 approved the sixth Share Buyback Program of the Company. Under the program, the Company may repurchase up to 48,773,702 shares, which corresponds to 3% of the free-float at the start of the program, which expires in 18 months, on December 29, 2018. In connection with the sixth buyback program, 1,336,800 shares have been repurchased at an average price of R$ 15.72 per share, equivalent to 2.7% of the program's limit.

From mid-2017 to early-2018, Kroton carried out seven capital increases: (i) 1,518,548 shares on July 31, 2017; (ii) 9,285,189 shares on August 31, 2017; (iii) 582,099 shares on September 26, 2017; (iv) 1,982,966 shares on 31 October 31, 2017; (v) 644,955 shares on November 30, 2017; (vi) 442,913 shares on December 28, 2017; and (vii) 121,758 shares on January 31, 2018. As a result, the Company's capital stock increased from 1,626,069,778 common shares at the end of 2016 to 1,640,648,206 common shares currently. Note that all capital increases observed the limit of authorized capital and were conducted in connection with the Company's Stock Option Plan.

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. After increasing its payout ratio from 25% in 2015 to 35% in 2016, Kroton further increased the ratio to 40% in 2017. Consequently, the Company declared dividends of R$566.8 million, of which R$187.6 million was distributed based on the result of the first quarter (paid on May 29, 2017), R$207.9 million was distributed based on the result of the second quarter (paid on August 28, 2017) and R$171.3 million was distributed based on the result of the third quarter (paid on November 27, 2017). Kroton also plans to distribute dividends based on the result for the fourth quarter, in the amount of R$148.4 million, which will bring the total amount distributed for fiscal year 2017 to 40% of its net income, after deducting the legal reserve of 5%.

Social Responsibility

Kroton's 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, with a direct impact on Brazil's development.

Supported by the mobilization of a vast network of students and employees, Kroton helps develop competencies aligned with teaching practices and the continuous strengthening of citizenship. In 2017, more than 1,287 social action projects were conducted by the Company's units and centers, which benefitted over 1.5 million people.

The main institutional programs include: (i) Solidary Hazing, which encourages the engagement of students in social actions from the beginning of their university life and engaged over 237,000 students in 2017, benefiting 258,000 people; (ii) Social Responsibility Campaign, offering a sample of social activities to 357,000 people from the communities surrounding Kroton's institutions; and (iii) Solidary Admissions Exam, which encourages candidates to pay for their application by donating food, which in the last cycle raised over 8 tons of food that was donated to selected institutions.

Furthermore, Kroton's units conduct thousands of pro bono services to improve quality of life, create opportunities and develop local communities. In 2017, a total of 2.3 million specialized procedures were offered to 1.9 million people.

The Pitágoras Foundation, Kroton's social arm for 18 years, developed the Integrated Management System (SGI), which is implemented free of charge in public primary and secondary schools that presented the worst results in the Basic Education Development Index (IDEB), with efforts focused on providing technical support to leaders and transferring its methodology. Through SGI, the company achieved significant advances in student learning, as well as improvements and innovations in management processes and practices. Some 29,000 educators and 1 million students in over 12 Brazilian states already have benefited from the program.

The Pitágoras Foundation also has been leading, for 11 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 in the five topics selected by the principals themselves as fundamental issues for ensuring a high-quality school: Pacification, Student Motivation, Teacher Motivation, Family/School Integration and Improving Official Learning Indicators. The benefits around 1,741 municipal and state public schools, and 1.3 million students.

Replicating the format of the Minas Gerais Conspiracy for Education, Kroton launched the Brazilian Alliance for Education, which began operating in August 2016 in the city of São Paulo to serve some 300 state public schools and benefit 350,000 students. In 2017, the alliance was expanded to all state public schools through real-time broadcasts of the Principals Forum to all school administrations in the state of São Paulo.

Two other important projects of the Pitágoras Foundation are the “Prison Projects” and “Early Childhood,” both of which are being implemented as pilot programs in the state of Minas Gerais, but which are planned to be rolled out to other regions of Brazil in 2018.

The “Prison Projects” aim to take high-quality education to the prison system, promoting resocialization initiatives, such as: (i) pro bono legal assistance to the families of inmates; (ii) offering of free unregulated programs in distance learning formats; and (iii) implementation of a systematic reading program aiming to improve the education of inmates and reduce sentences.

The “Early Childhood” program ensures the continuity of the program sponsored by the Ministry of Social Development called “Happy Child” by promoting cognitive and emotional development in the first three years of life. In 2017, the program trained professionals to work with children in vulnerable areas.

In addition to the purpose of offering high-quality education to its students, the Company contributes to the advancement of society as a whole through projects with the capacity to transform lives in various areas, given our belief that, among public policies, education has the deepest social impact by promoting economic development and serving as stepping stone for other public policies.

Independent Audit

In compliance with CVM Instruction 381/03, we inform that PricewaterhouseCoopers Auditores Independentes was engaged to render the following services in 2017: 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 16, 2018; and (ii) the financial statements for the fiscal year ended December 31, 2017.

Acknowledgements

The Management of Kroton extends its appreciation to its students, Associated Schools, government agencies, suppliers, shareholders and, in particular, its employees for their trust and immeasurable support and commitment throughout 2017.

For more details of the analysis of our 2017 results, please go to our website:
www.kroton.com.br/ir.
THE MANAGEMENT

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 21 companies, including Kroton Educacional S.A., of which 11 maintain higher education institutions, being: 10 constituted as limited liability corporate entities and 1 as a corporation, and comprising 119 Higher education units, present in 15 Brazilian states and 74 cities, in addition to 1,111 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 when the highest volume of sales of book collections occurs. 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.

(All amounts in thousands of reais unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. RESTATEMENT OF COMPARATIVE FIGURES

In 2017, reclassifications were identified in the financial statements for the year ended December 31, 2016 referring to the classification and disclosure of the Financial Bills (LF), Financial Treasury Bills (LFT) and National Treasury Bills (LTN).

The Company and its management reviewed the classifications of its financial investments and concluded that the National Treasury Bills, Financial Bills and Financial Treasury Bills should be classified as marketable securities. This conclusion results from the fact that the Government is not obliged to repurchase, which when performed before maturity, occurs only in the secondary market, therefore, not in compliance with the immediate liquidity requirement.

Management opted not to present a third opening balance at January 1, 2016, as the lack of its disclosure does not affect the understanding of the financial information as a whole. Possible impacts are pointed out below:

	12/31/2016			01/01/2016		
Balance sheet	Disclosed	Reclassifications	Reclassified balance	Disclosed	Reclassifications	Reclassified balance
Cash	1,343,982	(403,615)	940,367	398,232	(369,521)	28,711
Marketable securities - current	-	403,615	403,615	-	369,521	369,521
Marketable securities - non-current	5,718	-	5,718	5,351	-	5,351
	1,349,700	-	1,349,700	403,583	-	403,583

	12/31/2016		
Statements of cash flows	Disclosed	Reclassifications	Reclassified balance
Cash and cash equivalents at the beginning of the period	398,232	369,521	28,711
Cash and cash equivalents at the end of the period	1,343,982	(403,615)	940,367
Redemption of (investment in) marketable securities		34,094	34,094
		-	

2.2. 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.

2.3. Consolidation

The following accounting policies are applied to the preparation of the consolidated financial statements:

2.4. 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.

(All amounts in thousands of reais unless otherwise stated)

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.

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.

Joint arrangements are accounted for in the financial statements in a manner consistent with the Group's contractual rights and obligations. Therefore, the assets, liabilities, revenues and expenses related to its interests in joint operations are individually accounted for in its financial statements.

2.5. 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 - %	
Consolidated subsidiaries	12/31/2017	12/31/2016
Direct subsidiary:		
Anhanguera - Anhanguera Educacional Participações S.A.	100	100
Indirect subsidiaries:		
AESA- Anhanguera Educacional Ltda. (i)	100	100
AESAPRO - Clínica Médica Anhanguera Ltda.	100	100
FIDC - Anhanguera Educacional Fundo de Investimento em Direitos Creditórios	100	100
Juspodivm - Instituto Excelência Ltda.	100	100
FAC - Fac Educacional Ltda. (ii)	-	-
NOVATEC - Novatec Educacional Ltda. (ii)	-	-
Edufor - Edufor Serviços Educacionais Ltda. - ME (iii)	100	-
ICF - Sociedade Piauiense de Ensino Superior Ltda. (iv)	100	-
Direct subsidiary:		
EDE - Editora e Distribuidora Educacional	100	100
Indirect subsidiaries:		
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
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

(All amounts in thousands of reais unless otherwise stated)

	Interest in total capital - %	
Consolidated subsidiaries	12/31/2017	12/31/2016
Spes - Sistema Pitágoras de Ensino Superior	99.99	99.99
União - União de Ensino Unopar	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
FAIR - Fair Educacional Ltda. (ii)	-	-

(i) Company partially merged into AESAPAR at October 31, 2017.

(ii) After the fulfillment of the suspensive conditions established in the Agreement for the Purchase and Sale of Quotas and Other Covenants, in 2017 the sale of Kroton subsidiaries was concluded (Note 4).

(iii) On November 30, 2017, the Company, through its subsidiary AESAPAR, purchased the total amount of quotas issued by Edufor Serviços Educacionais Ltda. ("EDUFOR"), a higher education institution denominated Faculdade Educacional Fortaleza, located in Fortaleza - State of Ceará. The acquisition value totaled R$ 2,220.

(iv) On December 20, 2017, the Company, through its subsidiary AESAPAR, purchased the total amount of quotas issued by Sociedade Piauiense De Ensino Superior Ltda. ("ICF"), a higher education institution located in Teresina - State of Piauí. The acquisition value totaled R$ 27,430.

2.6. 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. The Board of Directors considers the business under the perspective of the services rendered: in-class higher education, distance-learning higher education (EAD) and basic education.

2.7. 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.

2.8. 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, 2017 and 2016, the Group did not have any items other than the profit for the years presented in the parent company and consolidated statements of income.

2.9. 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.

2.10. Financial assets

2.10.1. 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.

2.10.2. 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.

2.10.3. 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.

2.10.4. Impairment of financial assets

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 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.

2.11. 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 impairment of trade receivables. The provision for losses is established as from the date of billing based on the performance of the various lines of business and respective expectations of collection within 365 days from maturity.

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

In practice, trade receivables are usually recognized at the amount billed, adjusted by the realizable value. Trade receivables arising from long-term transactions are adjusted to present value.

2.12. 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.

2.13. 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.

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 period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives, as follows:

	Years
IT equipment	4.4
Furniture, equipment and fittings	11.3
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, 2017.

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.

2.14. 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 is 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.

2.15. 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, which are identified at the operating segment level (in-class, distance-learning and basic education).

In 2017, the Company and its managers decided to change the definition of the CGUs previously applied for the purposes of assessing impairment, aiming at a better alignment with the operating segments analyzed from the managerial and market viewpoint. Other methods and assumptions used in the analysis did not change compared to the previous period. The results obtained in 2016 would not be changed due to the aforementioned change.

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.

2.16. 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.

2.17. 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.

2.18. 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.

2.19. Current and deferred income tax and social contribution

Tax result for the year comprises current and deferred Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL). Profit before taxes is recognized in the statement of income.
The IRPJ and CSLL are calculated based on the application of the rates of 25% and 9%, respectively, adjusted by additions and exclusions provided for by law. Deferred income tax and social contribution are calculated on income tax and social contribution losses and other temporary differences on the balances of assets and liabilities for tax purposes and in the financial statements. Deferred income tax and social contribution liabilities are fully recognized, while the assets only to the extent it is probable that future taxable profit will be available for the temporary differences to be realized. The rates of these taxes are 25% for income tax and 9% for social contribution.

Current and deferred tax assets and liabilities are offset when there is a legal enforceable right to offset current tax assets against current tax liabilities and when current and 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, 2005, 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.

2.20. 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.

2.21. Employee benefits - Stock option program

The Group offers to officers and employees considered to be of strategic importance the stock option program. 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.

2.22. 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.

2.23. 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).

2.24. 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.

2.25. 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 conditions relating to the sale have been met. 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 (Student Financing Fund 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 (FIES Computerized System), 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 25% and 36% is transferred to partners that teach the courses, which varies according to the size of the classes and has specific rules that may be different for each teaching unit. The contractual agreement between the subsidiaries and the teaching unit is a joint operation and establishes the rights of the integral parts on the related revenues and obligations for the related expenses, therefore the revenue is recognized only on the portion of revenue referring to the subsidiaries. At the time the student's monthly tuition is received, an accounts payable is created for the teaching units.

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.

2.26. 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.

2.27. New and revised standards and interpretations

The following new standards were issued by IASB but are not effective for 2017. The early adoption of standards, even though encouraged by IASB, has not been implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC).

(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.

The Company's management assessed the impacts of the adoption of IFRS 15 and 9, and understands that the changes introduced by the standards will not have significant effects on its financial statements.

(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. The pronouncement will mainly affect the accounting of the Company's operating leases. The most significant leased assets are the rentals of unit properties.

Management is assessing the possible impacts of the adoption of IFRS 16.

There are no other IFRS 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 2.15. The recoverable amounts of cash-generating units (CGUs) have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 15).

As mentioned in Note 2.15, the Company and its managers decided to change the definition of the CGUs previously defined based on the legal entities, aiming at a better alignment with the operating modes analyzed from the managerial and market viewpoint.

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 to determine the deferred tax assets (Note 24).

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 (Note 23).

d) Provision for impairment of trade receivables

As described in Note 2.11, the Company makes analyses to cover any losses on the realization of accounts receivable from monthly tuitions, considering the risks involved, and records a provision to cover losses on realization (Note 10).

e) 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 (Notes 10 and 23).

4. ACCOUNTS RECEIVABLE FOR THE SALE OF SUBSIDIARIES

SALE OF FAIR, FAC FAMAT

Aiming to fulfill the Concentration Control Agreement entered into with the Fair Trade Commission ("CADE"), on May 14, 2014, within the context of the approval of the Joint Venture Agreement entered into between Kroton and Anhanguera Educacional Participações S.A., in 2017 the Group concluded the sale of all the equity investments held by subsidiaries of Kroton ("Sellers") to Treviso Empreendimentos e Participações S.A. ("Purchaser"), a company owned by Private Equity Investment Fund (FIPs) managed by TCG Gestor Ltda., Santander Securities Services Brasil DTVM S.A. and Vinci Capital Gestora de Recursos Ltda., in the companies: Faculdades Integradas de Rondonópolis, Instituto de Ensino Superior de Cuiabá and Faculdade de Mato Grosso ("FAIR, FAC FAMAT").

The Purchaser committed to pay to the Company the sale price estimated at R$ 48,941. The sale of FAIR, FAC FAMAT was contracted by the Sellers within the context of the transaction involving the sale of Sociedade Educacional Leonardo da Vinci S/S Ltda., ASSEVIM - Sociedade Educacional do Vale do Itajaí Mirim Ltda., Instituto Educacional do Alto Vale do Itajaí Ltda., Sociedade Educacional do Vale do Itapocu S.S. Ltda., and Sociedade Educacional do Planalto Serrano Ltda. (together, "Uniasselvi").

SALE OF NOVATEC

Aiming to fulfill the performance commitment document with CADE entered into in 2013, within the context of the approval of the Concentration Act referring to the acquisition of Anchieta Group and Uniban Group by Anhanguera Educacional Participações S.A. , it was concluded the sale of all the equity investments held by the Company in Novatec Educacional Ltda. to IBREPE - Instituto Brasileiro de Estudo e Pesquisas Educacionais.

(All amounts in thousands of reais unless otherwise stated)

TABLE 2 - Net result from the sale of FAIR, FAC FAMAT and NOVATEC

	FAC/FAIR	NOVATEC	TOTAL
Revenue from sale of investment	48,941	3,171	52,112
Adjustment to present value	(7,156)	-	(7,156)
Balance of net assets written-off (includes goodwill)	(18,885)	(511)	(19,396)
Result from the sale	22,900	2,660	25,560
Income Tax/Social Contribution (IRPJ/CSLL) on existing allocated goodwill	1,404	-	1,404
Subtotal	24,304	2,660	26,964
IRPJ/CSLL on sale	(7,786)	(904)	(8,690)
Net result	16,518	1,756	18,274

TABLE 2.1 - Accounts receivable for the sale of FAIR, FAC FAMAT

	Consolidated	
	12/31/2017	12/31/2016
UNIASSELVI	528,549	498,575
FAC	27,353	-
FAIR	15,623	-
	571,525	498,575
Current	124,634	-
Non-current	446,891	498,575
	571,525	498,575

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:

(All amounts in thousands of reais unless otherwise stated)

TABLE 2.2 - 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 from the 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

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 obligations for acquisitions from third parties payable in installments. The Company continuously monitors market interest rates in order to assess the need to contract new instruments to hedge against the volatility risk of these rates.

Interest rates contracted are as follows:

TABLE 3 - Contracted interest rates

	Consolidated		
	12/31/2017	12/31/2016	Interest rate
Borrowings			
Leasing	37,221	37,923	IPCA
Leasing - Equipment and Other	126	506	6.7% p.a.
Debentures	266,534	505,573	100% of the CDI + interest of 1.5% to 2% p.a.
Accounts payable for acquisitions	66,262	56,710	Interbank Deposit Certificate (CDI)
Accounts payable for acquisitions	44,954	42,233	IPCA
Accounts payable for acquisitions (i)	11,570	48,223	Outros

(All amounts in thousands of reais unless otherwise stated)

			Consolidated
	12/31/2017	12/31/2016	Interest rate
Total	426,667	691,168	

(i) This refers mainly to the acquisitions subject to 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 provides for 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 follow-up 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 impairment of trade receivables, based on the gross balance of accounts receivable from third parties, in order to cover credit risk.

(All amounts in thousands of reais unless otherwise stated)

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.

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, 2017				
Trade payables	314,285	-	-	314,285
Borrowings	3,733	5,267	28,347	37,347
Debentures	224,034	42,500	-	266,534
Accounts payable for acquisitions	107,907	5,952	8,927	122,786
	649,959	53,719	37,274	740,952

(All amounts in thousands of reais unless otherwise stated)

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, 2017				
Trade payables	314,285	-	-	314,285
Borrowings	3,733	5,802	35,990	45,525
Debentures	242,290	45,239	-	287,529
Accounts payable - acquisitions	126,069	14,569	11,540	152,178
	686,377	65,610	47,530	799,517

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, 2017.

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, 2017, 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	
	12/31/2017	12/31/2016
Borrowings, debentures and accounts payable due to acquisitions (i)	(426,667)	(691,168)
Cash and cash equivalents and marketable securities - current and non-current	1,733,269	1,349,700
Net cash	1,306,602	658,532
Equity	15,207,726	13,849,364
Gearing ratio	8.59%	-4.75%

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

(All amounts in thousands of reais unless otherwise stated)

5.3) Sensitivity analysis

The following table presents the sensitivity analysis of the financial instruments, describing the risks that could generate losses to the Company, according to the assessment made by management, considering for a period as the most probable basic scenario in a 12-month horizon, the following projected rates: CDI - 9.93% and IPCA - 3.9% 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.

TABLE 5 - Sensitivity analysis

					Consolidated
	Exposure at the base date 12/31/17	Risk	Probable scenario	Possible scenario -25%	Remote scenario -50%
Financial investments and marketable securities	1,733,269	Reduction of the CDI	172,114	129,085	86,057
Debentures and accounts payable linked to the CDI	(332,796)	Reduction of the CDI	(33,047)	(24,785)	(16,523)
Accounts payable linked to the IPCA	(80,831)	Reduction of the IPCA	(3,152)	(2,364)	(1,576)
	1,319,642		135,915	101,936	67,958

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.

(All amounts in thousands of reais unless otherwise stated)

TABLE 6 - Financial instruments

						Consolidated
			12/31/2017			12/31/2016
	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	921,328	-	921,328	940,367	-	940,367
Marketable securities	-	811,941	811,941	-	409,333	409,333
Trade and other receivables	2,040,890	-	2,040,890	1,769,028	-	1,769,028
	2,962,218	811,941	3,774,159	2,709,395	409,333	3,118,728

						Consolidated
			12/31/2017			12/31/2016
	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	-	37,347	37,347	-	38,429	38,429
Debentures	-	266,534	266,534	-	505,573	505,573
Trade and other payables, excluding legal obligations	-	469,188	469,188	-	429,703	429,703
	-	773,069	773,069	-	973,705	973,705

The Company's financial assets and liabilities at December 31, 2017 are recorded in the balance sheet at amounts that are consistent with those prevailing in the market.

The carrying amounts and market values of financial instruments are similar, except for debentures. In the year ended December 31, 2017, the total carrying amount of the debentures was R$ 266,534 and the fair value was R$ 244,670 (R$ 546,049 in December 2016).

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:

(All amounts in thousands of reais unless otherwise stated)

TABLE 7 - Credit quality of financial assets

	Consolidated	
	12/31/2017	12/31/2016
Trade receivables (Note 10)		
Group 1 - higher education	2,995,692	2,349,992
Group 2 - basic education	79,788	70,971
	3,075,480	2,420,963

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 in accordance with the aging of debts, and segregate students per type of product and profile: Student Financing Fund (FIES) and Private Special Installment Plan (PEP), for example. Trade receivables in Group 2 are mainly comprised of sales of products to legal entities (companies), which are subject to a credit analysis for approval.

	Consolidated	
Cash and cash equivalents (Note 8)	12/31/2017	12/31/2016
AAA	1,144	7,342
AA+	60,166	54,985
AA (i)	845,743	-
A	61	-
A-	13,884	-
AA- (i)	-	878,040
Not applicable	330	-
	921,328	940,367
Marketable securities (Note 9)		
AAA	51,421	34,605
AA+	3,240	13,496
AA (i)	733,243	-
A-	-	7,259
AA- (i)	-	339,830
Not applicable	24,037	14,143
	811,941	409,333

(i) The variation in the classification of balances between periods is attributed to the changes in rates by 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 (restatement Note 2.1)

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Cash				Restated (Note 2.1)
Current account	133	101	294	2,077
	133	101	294	2,077
Financial investments				
Fixed-income fund	-	-	11,456	1,558
OPCM - Repurchase Operation	-	-	133,970	533,252
National Treasury Note - series O (NTN-O)	200,437	58,289	713,176	342,737
Bank Deposit Certificate (CDB)	-	-	62,432	60,743
	200,570	58,390	921,328	940,367

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 gross yield of 100.79% of CDI at December 31, 2017 (100.1% of CDI at December 31, 2016).

9. MARKETABLE SECURITIES

TABLE 9 - Composition of marketable securities

	Consolidated	
	12/31/2017	12/31/2016
		Restated (Note 2.1)
National Treasury Bills (LTN)	34,746	97,628
Financial Bills (LF)	48,977	55,208
Financial Treasury Bills (LFT)	728,218	256,497
	811,941	409,333
Current	805,212	403,615
Non-current	6,729	5,718

The average gross profitability of the marketable securities is 99.98% of the CDI at December 31, 2017 (December 31, 2016 - 100.1% of CDI).

(All amounts in thousands of reais unless otherwise stated)

10. TRADE RECEIVABLES

a) Composition

TABLE 10 - Composition of trade receivables

		Consolidated
	12/31/2017	12/31/2016
Higher education (i)	2,999,080	2,349,992
Basic education	79,788	70,971
	3,078,868	2,420,963
Provision for impairment of trade receivables		
Higher education	(990,635)	(599,778)
Basic education	(4,095)	(6,167)
	(994,730)	(605,945)
Trade receivables, net	2,084,138	1,815,018
Adjustment to present value (ii)	(187,667)	(174,351)
	1,896,471	1,640,667
Current	1,448,662	1,043,905
Non-current (iii)	447,809	596,762
	1,896,471	1,640,667

(i) Basically comprised of monthly tuition fees overdue or falling due of students, FIES, and students with installment receivable.

(ii) The adjustment to present value (APV) is calculated on the amounts of revenue recognized every month, which maturity date is in future periods, mainly for the students benefitted by the Private Special Installment (PEP) or the Late Enrollment Installment (PMT) products. The weighted average rate used to discount the amounts was 4.04% during the quarter.

The reversal of the APV constituted in the month of the revenue may occur in two different manners: a) through the natural evolution of the agreements over the time, that is, every month the proportional amount related to the month is reversed, originating a positive impact on the result; and b) in the event of student dropout, which, in accordance with the agreement signed, allows the Company to charge in advance the debt balance, in this case, the APV balance is fully reversed. The FIES-PN23 balances receivable were recorded at present value in 2015 and, every month, the corresponding APV is reversed.

(iii) Accounts receivable from PEP and from the renegotiation of monthly higher education fees with maturities above 365 days, net of the adjustments to present value.

The increase in accounts receivable is basically due to the increase in the investment of the installment products in the Company's revenue, such as PEP and PMT, in which part of the payment is only made after completion of the course. Similarly, the provision for doubtful accounts linked to these products also increased, since the Company's policy is to make a provision of 50% of the amount divided into installments, net of the adjustments to present value.

(All amounts in thousands of reais unless otherwise stated)

b) FIES

Accounts receivable from FIES are represented by educational loans, the installments of which were contracted by students with the Federal Savings Bank (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 Brazilian Association for the Development of Higher Education (ABRAES), the Federal Government, the Secretary of Higher Education of the Ministry of Education 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 and 2017, the first and second installment of R$ 183,693 and R$ 198,216, respectively, referring to the Agreement, were received. The amount to be received in 2018, net of adjustment to present value, is R$ 370,664.

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 Federal Savings Bank.

At December 31, 2017, the receivables from FIES, net of the provision for impairment of trade receivables and the adjustment to present value, amounted to R$ 532,209 (R$ 794,316 at December 31, 2016, including the balance of PN23).

c) Analysis of maturities

TABLE 11 - Maturities of trade receivables

	Consolidated	
	12/31/2017	12/31/2016
Not yet due (i)	2,368,262	1,738,635
Past due		
Up to 30 days	126,868	136,297
From 31 to 60 days	112,281	107,960
From 61 to 90 days	99,643	88,826
From 91 to 365 days	371,814	349,245
Total past due	710,606	682,328
Provision for impairment of trade receivables	(994,730)	(605,945)
Adjustment to present value	(187,667)	(174,351)
	1,896,471	1,640,667

(All amounts in thousands of reais unless otherwise stated)

d) Provision for impairment of trade receivables and write-offs.

Monthly fees

The Company recognizes the provision for impairment of trade receivables 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 impairment of trade receivables 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 recognizes a provision for impairment of trade receivables related to receivables from PEP, using the percentage of 50% of the related net revenue, which reflects the best management estimate with regard to future default. The percentage takes into consideration: a) the expectation of future loss for students with installments, which is higher than the average of the paying students; and b) the historical evasion of students.

TABLE 12 - Changes in provision for the impairment of trade receivables

		Consolidated
	12/31/2017	12/31/2016
Opening balance	(605,945)	(469,448)
Addition from acquiree	(2,710)	-
Write-off against trade receivables	197,105	211,062
Constitution	(583,180)	(347,559)
Closing balance	(994,730)	(605,945)

(All amounts in thousands of reais unless otherwise stated)

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.

11. OTHER RECEIVABLES

TABLE 13 - Composition of other accounts receivable

	Consolidated	
	12/31/2017	12/31/2016
Prepaid expenses (i)	11,730	18,400
Receivables of acquired companies (ii)	81,265	87,404
Sale of real estate and other subsidiaries (iii)	21,880	17,823
Other	29,544	4,747
Total	144,419	128,374
Current	74,016	75,998
Non-current	70,403	52,376
	144,419	128,374

(i) Comprised of: R$ 6,856 - marketing expenses; R$ 2,013 - prepayment of expenses with Didactic Material; R$ 692 - prepayment of expenses with Guarantees, and R$ 2,169 - prepayment of expenses with software license.

(ii) Mainly comprised of the subsidiary Anhanguera Educacional S.A. The subsidiary 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$ 46,027, referring to the Services Tax (ISS) balance payable in installments through the Installment Payment Incentive Program (PPI) and R$ 10,998 referring to a tax foreclosure, which is in progress in the 2nd Court of the Public Treasury, resulting from an educational agreement entered into in the 90s between APA and the Municipality of São Bernardo do Campo, whose debt originated from the absence of approval of the municipal accounts by the Accounting Court.

The subsidiary Unime LF has R$ 2,470 receivable from former owners, referring to the payment in installment of the Tax Recovery Program (REFIS) taxes. The other subsidiaries together have a balance of R$ 21,770, mainly arising from taxes and lawsuit losses paid, guaranteed by the former owners.

(iii) Comprised of: R$ 4,438 of the remaining balance for the sale of Colégio Anchieta, entered into in 2012 through the subsidiary Anhanguera Educacional Ltda., which will be received in installments, the last of which in December 2021; R$ 4,123 receivable for the sale of subsidiary Suesc (Sociedade Unificada de Ensino Superior e Cultura), in April 2011, linked to the remaining balance of the ISS tax liability, according to the final decision to be sentenced as regards the tax foreclosure proceeding claimed in court by the Municipality of Rio de Janeiro. If favorable, the Company will be entitled to receive from the purchaser the amount agreed by the parties and, therefore, may reverse the liability. If unfavorable, the Company will pay the difference between the price defined in the agreement and the value of the matter in controversy; R$ 2,720 referring to the sale of subsidiary FCR (Faculdade Cândido Rondon); R$ 2,477 of the remaining balance referring to the sale of a property located in the city of São Paulo; R$ 2,830 referring to the sale of a property located in the city of Santo André; R$ 1,121 referring to the sale of the subsidiary FAUSB (Faculdades Integradas Desembargador Sávio Brandão) and R$ 4,171 referring to the sale of the subsidiary NOVATEC Educacional Ltda.

(All amounts in thousands of reais unless otherwise stated)

12. ADVANCES

TABLE 14 - Composition of advances

	Consolidated	
	12/31/2017	12/31/2016
Advances to employees (i)	20,533	23,404
Rental advances	18,188	20,532
Advances to suppliers	11,024	25,344
	49,745	69,280
Current	48,065	67,600
Non-current	1,680	1,680
	49,745	69,280

(i) Comprised mainly of advances for vacation pay.

13. TAXES RECOVERABLE

TABLE 15 - Composition of taxes recoverable

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Current:				
IRPJ and CSLL recoverable (i)	2,308	1,694	59,746	61,185
PIS, Cofins and ISS recoverable (ii)	-	-	28,829	15,068
INSS recoverable (iii)	-	-	10,614	3,862
ICMS recoverable	-	-	2,773	646
Other taxes recoverable (iv)	-	-	6,025	7,724
	2,308	1,694	107,987	88,485
Current	2,308	1,694	102,684	81,423
Non-current	-	-	5,303	7,062

(All amounts in thousands of reais unless otherwise stated)

(i) Refers 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.

14. PROPERTY AND EQUIPMENT

TABLE 16 - 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, 2016	89,250	304,994	117,266	1,020,230	73,164	99,779	1,704,683
Additions	36,634	94,034	58,657	16,237	181,684	-	387,246
Addition from acquiree	466	938	822	-	-	-	2,226
Disposals	(1,252)	(5,418)	(1,164)	(1,691)	(559)	-	(10,084)
Depreciation	(35,586)	(46,650)	(21,495)	(48,878)	-	-	(152,609)
Transfers	-	-	-	182,565	(182,565)	-	-
At December 31, 2017	89,512	347,898	154,086	1,168,463	71,724	99,779	1,931,462
Annual average depreciation rate	30%	11%	10%	4%	-	-	

15. INTANGIBLE ASSETS

TABLE 17 - Composition of intangible assets

	Consolidated					
	Software	Internal projects	License to operate	Goodwill and intangible assets allocated	Other intangible assets	Total
At December 31, 2016	204,036	145,793	-	10,857,405	123,552	11,330,786
Additions (i)	100,184	78,224	8,262	31,253	23,439	241,362
Write-offs (i)	(306)	-	-	(8,848)	-	(9,154)
Amortization	(39,889)	(65,707)	-	(150,451)	(8,058)	(264,105)
At December 31, 2017	264,025	158,310	8,262	10,729,359	138,933	11,298,889
Average annual amortization rate	20%	21%	1%	1%	5%	-

(i) The addition of goodwill refers to the acquisition of 100% of the quotas of EDUFOR R$ 29,154 and ICF R$ 2,099, according to Note 2.5.

(ii) The write-offs of goodwill and intangible assets refer to the write-off of goodwill in the transaction FAC/FAMAT, FAIR and NOVATEC, according to 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 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 18 - Composition of Goodwill and Intangible Assets Allocated

	Consolidated	
	12/31/2017	12/31/2016
Goodwill (i)	8,505,515	8,485,209
Trademarks (ii)	1,554,526	1,655,994
Operation license and partner network (iii)	665,746	663,647
Portfolio of customers (iv)	3,234	51,462
Non-compete agreement (iv)	338	677
Development of teaching platform	-	416
	10,729,359	10,857,405

(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.

Impairment tests for goodwill per modality

Goodwill is allocated to the Cash-generating units (CGUs), which are identified at the operating segment level. An operating segment-level summary of the goodwill allocation is presented below:

				12/31/2017
	In-class higher education	Distance learning higher education	Basic education	Total
Goodwill allocated per CGU Operation license and network of teaching units	7,564,014	3,209,771	72,073	10,845,858

As described in Note 2.15 and 3.a), the Company and its managers decided to change the definition of the CGUs previously applied for assessment of impairment, aiming at a better alignment with the operating segments analyzed from the managerial and market viewpoint. Other methods and assumptions used in the analysis did not change compared to the previous period. The results obtained in 2016 would not be changed due to the aforementioned change.

(All amounts in thousands of reais unless otherwise stated)

The recoverable amount of a CGU has been determined based on value-in-use calculations. These calculations use pre-income tax and social contribution cash flow projections based on financial budgets approved by management covering an eight-year period. Cash flows beyond the eight-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the education business in which the CGUs operate.
The calculation considers 8 years of detailed flow projection, plus a perpetuity value with growth of 5.5% per year. The nominal discount rate used before the tax benefit was 12.52% p.a., which derives from the Weighted Average Cost of Capital - WACC.

The Company uses an eight-year scenario because it understands that the time for maturation of a new unit is approximately eight years, since there are courses in which, as from the 4th year, there is a full student base for the new unit, in this case the unit would have four more years to reach its potential of revenue and profitability.

At December 31, 2017, goodwill was subject to impairment testing and no adjustments to the related amounts were considered necessary.

16. INVESTMENTS

TABLE 19 - Composition of investments in subsidiaries

	Parent company	
	12/31/2017	12/31/2016
Editora e Distribuidora Educacional S.A. ("EDE")	5,353,840	4,581,297
Anhanguera Educacional Participações S.A. ("AESAPAR")	2,982,461	2,537,968
Subtotal	8,336,301	7,119,265
Goodwill, including of Anhanguera	7,542,483	7,694,545
Total	15,878,784	14,813,810

TABLE 20 - Information on direct subsidiaries

						December 31, 2017
	Participation in equity	Number of shares	Total assets	Total liabilities	Equity	Profit for the year
EDE	100%	2,549,437,961	6,339,875	986,031	5,353,840	1,251,122
AESAPAR	74.46%	437,228,783	5,217,758	1,212,209	4,005,549	866,219
		2,986,666,744	11,557,633	2,198,240	9,359,389	2,117,341

						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

(All amounts in thousands of reais unless otherwise stated)

TABLE 21 - Composition of investments in direct subsidiaries

Investment	12/31/2016	Allocated goodwill amortization	Equity Income	Restatement	Dividends	12/31/2017
EDE	4,581,297	-	1,251,122	-	(478,579)	5,353,840
AESAPAR	2,537,968	-	668,740	-	(224,247)	2,982,461
Goodwill, including of Anhanguera	7,694,545	(148,775)	-	(3,287)	-	7,542,483
Total	14,813,810	(148,775)	1,919,862	(3,287)	(702,826)	15,878,784

TABLE 22 - Information on indirect subsidiaries

						December 31, 2017
	Participation in equity	Number of quotas	Total assets	Total liabilities	Equity	Profit for the year
AESA	100%	49,163,929	132,963	22,355	110,608	496,725
AESAPRO	100%	64,800	495	28	467	(29)
FIDC	100%	33,010,096	105,804	171	105,633	23,405
Juspodivm	100%	17,430,579	3,795	729	3,066	1,436
Ceama	99.99%	76,850,364	198,642	12,262	186,380	57,597
Fais	99.99%	8,913,752	56,793	1,865	54,928	20,977
Fama Macapá	99.99%	11,619,489	133,052	25,501	107,551	73,059
Iuni	99.99%	453,846,305	1,032,923	94,878	938,045	390,915
Orme	99.99%	135,947,196	66,194	906	65,288	(13,807)
Pax	99.99%	17,956,763	25,404	1,680	23,724	3,389
Projecta	99.99%	10,234,275	5,413	334	5,079	264
Pses	99.99%	345,039,310	614,331	64,797	549,534	366,838
Spes	99.99%	23,480,389	41,466	10,904	30,562	6,398
União	99.99%	32,640,534	64,395	3,181	61,214	19,492
Unirondon	99.99%	28,025,000	47,601	1,889	45,712	9,717
Unic Educ.	99.99%	174,591,442	471,016	25,771	445,245	226,202
Unime Salvador	99.99%	15,152,973	98,762	11,702	87,060	27,440
FAIR	-	-	-	-	-	(386)
FAC	-	-	-	-	-	216
NOVATEC	-	-	-	-	-	659
Unime LF	100%	49,701,183	105,804	171	105,633	23,405
EDUFOR	99.99%	60,000	122	21	101	-
ICF	99.99%	3,168,470	5,759	10,330	(4,571)	-
			3,210,734	289,475	2,921,259	1,733,912

(All amounts in thousands of reais unless otherwise stated)

17. BORROWINGS

TABLE 23 - Composition of borrowings

	Consolidated	
	12/31/2017	12/31/2016
Finance leases	37,347	38,429
	37,347	38,429
Current	3,733	2,426
Non-current	33,614	36,003

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$ 9,793 and the São Bernardo do Campo property in the amount of R$ 26,210.

The finance lease obligations are collateralized by the asset itself.

TABLE 24 - Borrowings by maturity range

		12/31/2017	
	Maturity of installments	Total	%
Total current liabilities	2018	3,733	10.0
	2019	2,501	6.7
	2020	2,766	7.4
	2021 onwards	28,347	75.9
Total non-current liabilities		33,614	90.0
Total		37,347	100.0

18. DEBENTURES

TABLE 25 - Composition of Debentures

				Consolidated	
	Remuneration	Date of issue	Maturity	12/31/2017	12/31/2016
1st issue (i)	CDI + 2.00% p.a.	12/15/2011	12/15/2018	78,932	158,404
2nd issue - 1st series (ii)	CDI + 1.95% p.a.	02/26/2015	9/28/2018	102,235	204,357
2nd issue - 2nd series (ii)	CDI + 1.50% p.a.	02/26/2015	12/10/2017	-	57,118
2nd issue - 3rd series (ii)	CDI + 1.70% p.a.	02/26/2015	12/10/2019	85,367	85,694
Total				266,534	505,573
Current liabilities				224,034	216,856
Non-current liabilities (iii)				42,500	288,717

(All amounts in thousands of reais unless otherwise stated)

(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).

(iii) Non-current balance of R$ 42,500 falls due in 2019, terminating the debenture agreement.

TABLE 26 - Changes in Debentures

	Consolidated	
	12/31/2017	12/31/2016
Opening balance	505,573	717,596
Interest accrued	54,678	101,576
Appropriated costs	1,375	1,510
Payment of interest	(86,759)	(106,776)
Payment of principal	(208,333)	(208,333)
Closing balance	266,534	505,573

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 Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). In 2017, the value should not be equal to or less than 3.5.

(ii) Result of the quotient of dividing the adjusted EBITDA by the adjusted finance 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 EBITDA. The resulting value should not be greater than 3.

At December 31, 2017, the financial ratios of both issues had been complied with.

(All amounts in thousands of reais unless otherwise stated)

19. SALARIES AND SOCIAL CHARGES

TABLE 27 - Composition of social security and labor liabilities

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Salaries payable	-	-	55,584	57,584
National Institute of Social Security (INSS)	-	-	51,695	49,181
Government Severance Indemnity Fund for Employees (FGTS)	-	-	12,670	12,011
Withholding Income Tax (IRRF) payable	-	-	24,271	23,522
Provision for vacation pay	-	-	57,940	65,063
Charges on provisions	-	-	19,308	21,650
Provision for profit sharing	82,407	113,329	82,407	113,329
Other	3,120	5,622	24,554	8,541
	85,527	118,951	328,429	350,881

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, 2017, R$ 163,103 (R$ 131,727 at December 31, 2016).

21. TAXES AND CONTRIBUTIONS PAYABLE IN INSTALLMENTS

TABLE 28 - Composition of taxes and contributions payable in installments

	Consolidated	
	12/31/2017	12/31/2016
Municipal charges payable in installments (a)	40,394	44,768
Tax Recovery Program (REFIS) IV - federal - payable in installments (b)	5,952	6,553
INSS payable in installments	2,059	1,073
	48,405	52,394
Current	10,612	10,826
Non-current	37,793	41,568

(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$ 34,527, 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$ 5,531 with different terms and conditions, adjusted by the Selic rate on a monthly basis.

(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, 2017, the restated credit balance was R$ 5,512. It has different terms and conditions, and the installments are adjusted by the Selic rate on a monthly basis.

TABLE 29 - Changes in taxes and contributions payable in installments

		Consolidated
	12/31/2017	12/31/2016
Opening balance	52,394	57,613
Interest	2,714	760
Payments	(2,672)	(4,148)
Interest refunded by the former owner	(4,031)	(1,831)
Closing balance	48,405	52,394

22. ACCOUNTS PAYABLE - ACQUISITIONS

TABLE 30 - Composition of payables for acquisitions

		Consolidated
	12/31/2017	12/31/2016
Ítala	65,987	103,474
Uniabc	27,544	26,707
ICF	16,810	-
Unirondon	-	3,423
LFG	2,455	3,156
Iesville Educar/Intesc	5,000	5,300
Other	4,990	5,106
Total	122,786	147,166
Current	107,907	86,948
Non-current	14,879	60,218

(All amounts in thousands of reais unless otherwise stated)

TABLE 31 - Changes in payables for acquisitions

	Consolidated	
	12/31/2017	12/31/2016
Opening balance	147,166	221,068
Additions	29,630	9,300
Interest adjustment	10,395	18,922
Write-offs/Offsets	(7,019)	(18,977)
Adjustment to present value	(1,913)	(1,154)
Payments	(55,473)	(81,993)
Closing balance	122,786	147,166

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

TABLE 32 - Changes in payables for acquisitions

		12/31/2017	
	Maturity of installments	Total	%
Total current liabilities	2018	107,907	87.9
	2019	2,976	2.4
	2020	2,976	2.4
	2021	2,976	2.4
	2022	2,976	2.4
	2023	2,975	2.4
Total non-current liabilities		14,879	12.1
Total		122,786	100.0

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

23.1. Proceedings involving probable losses

The Company's management, based on the opinion of its legal advisors, classifies the possibility of loss of judicial/administrative proceedings in which it is a party as a defendant. The proceedings with probable losses are provided for, as well as the liabilities acquired (business combination) with risk of possible loss. We present below the changes for the period:

(All amounts in thousands of reais unless otherwise stated)

TABLE 33 - Changes in contingencies

				Subsidiaries (i)
	Tax	Civil	Labor	Total
At December 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 December 31, 2016	78,039	24,556	83,484	186,079
Monetary restatement	-	-	3,816	3,816
Reversals (ii)	(12,596)	(4,014)	(50,873)	(67,483)
Total effect - result	(12,596)	(4,014)	(47,057)	(63,667)
Proceedings - former owner	(7,501)	(4,497)	(1,043)	(13,041)
Payments	-	(109)	(18)	(127)
Total payments	(7,501)	(4,606)	(1,061)	(13,168)
At December 31, 2017	57,942	15,936	35,366	109,244

(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.

TABLE 34 - Changes in contingencies

				Consolidated
	Tax	Civil	Labor	Total
At December 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 December 31, 2016	309,264	107,078	370,683	787,025

(All amounts in thousands of reais unless otherwise stated)

				Consolidated
	Tax	Civil	Labor	Total
Additions (i)	2,083	63,051	33,783	98,917
Monetary restatement	4,971	468	7,071	12,510
Reversals (ii)	(40,330)	(33,229)	(110,670)	(184,229)
Total effect - result	(33,276)	30,290	(69,816)	(72,802)
Proceedings - former owner	(22,595)	11,326	(12,658)	(23,927)
Payments	(9,427)	(49,525)	(41,105)	(100,057)
Total payments	(32,022)	(38,199)	(53,763)	(123,984)
At December 31, 2017	243,966	99,169	247,104	590,239

(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, being represented by 50 tax proceedings, 9,340 civil proceedings and 1,184 labor proceedings, which amounts are varied and individually insignificant:

a. Tax - The main addition in the period refers to a Services Tax (ISSQN) foreclosure proceeding of subsidiary IUNI in the amount of R$ 629, and also additions in 49 proceedings totaling R$ 1,454.

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 subsidiary Anhanguera in the amount of R$ 420, and also additions in 9,339 proceedings totaling R$ 62,631. The individual amounts attributed to these varied proceedings are insignificant.

c. Labor - The main addition in the period refers to a proceeding related to the payment of labor amounts, in general, in the subsidiary Anhanguera, in the amount of R$ 764, and also additions in 1,183 proceedings totaling R$ 30,997. The individual amounts attributed to these varied proceedings are insignificant.

(ii) The reversals in the period refer to the changes that would have an impact on results:

a. Tax - In the subsidiary Anhanguera, there was a reversal of R$ 4,091 in a judicial proceeding under its responsibility regarding the municipal tax, Service Tax (ISS) due to a partial favorable outcome, and also other reversals totaling R$ 36,239.

b. Civil - In the subsidiary Anhanguera, there was a reversal of R$ 358 in a judicial proceeding under its responsibility and also other reversals totaling R$ 32,871.

c. Labor - In the subsidiary Anhanguera, there was a reversal of R$ 10,000 in a judicial proceeding in which the plaintiff pleaded the payment of labor amounts, in general, and also other reversals totaling R$ 100,670.

At December 31, 2017, the main judicial and administrative proceedings filed against the Group 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, 2017, 77 proceedings in progress of a tax nature, classified as a risk of probable loss (105 at December 31, 2016). The main tax proceedings classified as risk of probable loss are discussed below:

a) The subsidiary Anhanguera is a party to 17 tax foreclosures regarding municipal taxes (ISSQN) in the State of São Paulo, for which there is a provision of R$ 127,998, and the responsibility is shared; R$ 118,473 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 Unime Lauro de Freitas is a party to 2 tax assessment notices regarding municipal taxes (ISSQN), for which there is a provision of R$ 10,988.

c) The subsidiary Anhanguera of São Paulo is a party to a tax assessment notice filed by the Federal Revenue Secretariat (SRF), for which there is a provision of R$ 1,502 which responsibility is shared between the Company and the former owner; R$ 586 is the responsibility of the State of Pará. The Company has sufficient contractual guarantee for the percentage that is the responsibility of the former owner.

d) The subsidiary Anhanguera of Niterói is a party to a tax foreclosure regarding the Government Severance Indemnity Fund for Employees (FGTS) in the State of Rio de Janeiro, for which there is a provision of R$ 1,488, and the former owner is fully responsible for it. The Company has sufficient contractual guarantee for this proceeding.

e) The subsidiary Anhanguera of São Paulo is a party to a tax foreclosure regarding a fine applied by Procon (the Consumer Protection and Defense Foundation), for which there is a provision of R$ 1,293; the former owner is responsible for this tax foreclosure, and the Company has sufficient contractual guarantee.

f) The subsidiary Anhanguera of Campo Grande is a party to a tax foreclosure regarding taxes administered by the Federal Revenue Secretariat (SRF), the National Institute of Social Security (INSS), for which there is a provision of R$ 772.

Civil

The Company and its subsidiaries had (of their own responsibility and that of the former owner), at December 31, 2017, 4,650 proceedings in progress of a civil nature, classified as a risk of probable loss (4,443 at December 31, 2016). The main civil proceedings classified as risk of probable loss are discussed below:

a) The subsidiary Anhanguera Morumbi is a party to a proceeding regarding the rental of a property, for which there is a provision of R$ 9,428. This proceeding is under the responsibility of the former owner and the Company has sufficient contractual guarantee.

b) The subsidiary Anhanguera of Curitiba is a party to a proceeding related to contract termination, seeking indemnity for such termination, for which there is a provision of R$ 8,207.

c) The subsidiary Anhanguera of Campo Grande is a party to a public civil proceeding discussing the validation of covenants agreed, for which there is a provision of R$ 2,700. This proceeding is under the responsibility of the former owner and the Company has sufficient contractual guarantee.

d) The subsidiary Anhanguera of Osasco, São Paulo is a party to a collection proceeding discussing the collection in excess of interest, for which there is a provision of R$ 2,523. This proceeding is under the responsibility of the former owner and the Company has sufficient contractual guarantee.

e) The subsidiary IUNI is a party to a collection proceeding discussing an additional payment due to the acquisition of a higher education institution for which there is a provision of R$ 2,235.

f) The subsidiary Anhanguera of Belo Horizonte 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.

g) 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, 2017, 1,926 proceedings in progress of a labor nature, classified as a risk of probable loss (1,942 at December 31, 2016). The main labor proceedings classified as risk of probable loss are discussed below:

(All amounts in thousands of reais unless otherwise stated)

a) The subsidiary Anhanguera is a party to a collective 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$ 8,517.

b) The subsidiary Anhanguera of São Paulo is a party to a labor proceeding which claims are: salary differences and their reflexes, 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$ 5,217.

c) The subsidiary Anhanguera of Belo Horizonte is a party to a labor proceeding in which the plaintiff seeks the recognition of an employment relationship and labor amounts, for which there is a provision of R$ 3,901.

d) The subsidiary Anhanguera of Osasco, São Paulo, 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 of 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$ 1,697.

e) The subsidiary Anhanguera of São Paulo is a party to a labor proceeding which claims are: salary difference and its reflexes, night shift differentials, annotation and return of the Labor and Social Security Card (CTPS), and payment of bonus, for which there is a provision of R$ 2,000;

f) The subsidiary Anhanguera of São Paulo is a party to a labor proceeding which claims are: pain and suffering, salary difference and its reflexes, night shift differentials, annotation and return of the Labor and Social Security Card (CTPS), and payment of bonus, for which there is a provision of R$ 1,900;

TABLE 35 - Composition of proceedings - possible loss

	Consolidated	
	12/31/2017	12/31/2016
Tax	368,651	367,476
Civil	216,156	162,200
Labor	80,591	40,017
Total	665,398	569,693

The Company's management, based on the opinion of its legal advisors, classifies the possibility of loss of judicial/administrative proceedings in which it is a party as a defendant as possible. The proceedings classified as possible loss are not provided for in the Company's financial statements, among which are the proceedings arising from business combinations. At December 31, 2017, the Company and its subsidiaries had 12,764 proceedings classified as possible loss, of which 147 were of a tax nature, 11,473 of a civil nature, and 1,144 of a labor nature. The main proceedings are presented below:

Tax

a) The subsidiary IUNI is a party to tax assessment notices for the collection of Corporate Income Tax (IRPJ), Social Contribution on Net Income (CSLL), Social Integration Program (PIS) and Social Contribution on Revenues (COFINS) during the period in which it had immunity from taxation of R$ 146,750.

b) The subsidiary IUNI is a party to tax foreclosures regarding the collection of social contributions during the period in which it had immunity from taxation of R$ 33,750. These proceedings are under the responsibility of the former owner and there is sufficient contractual guarantee.

c) 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 of R$ 26,654. These proceedings are under the responsibility of the former owner and there is contractual guarantee.

d) The subsidiary CEAMA São Luiz is a party to tax assessment notices for the collection of IRPJ and CSLL of R$ 16,163. These tax assessment notices are under the responsibility of the former owner. In the event of an unfavorable outcome for the Company, it is entitled to indemnification.

e) The subsidiary Anhanguera of Niterói is a party to a tax assessment notice filed by the Federal Revenue Secretariat (SRF) of R$ 12,531. This proceeding is under the responsibility of the former owner and there is contractual guarantee.

Civil

a) The subsidiary Editora is a party to a proceeding that discusses the nullity of an amendment to the agreement of R$ 15,000.

b) 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 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, amounting to R$ 12,000. 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.

c) 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, amounting to R$10,000.

(All amounts in thousands of reais unless otherwise stated)

Labor

a) The subsidiary Anhanguera Valinhos, State of São Paulo, is a party to a labor proceeding in which the plaintiff claims accumulation of function, tangible damage, moral harassment and rectification of the Labor and Social Security Card (CTPS) of R$ 2,402.

b) The subsidiary Anhanguera Osasco, State of São Paulo, is a party to a proceeding whose plaintiff claims severance pay in general of R$ 1,576.

c) The subsidiary Anhanguera Jundiaí, State of São Paulo, is a party to a proceeding whose plaintiff claims labor amounts in general of R$ 1,500.

d) The subsidiary Anhanguera Osasco, State of São Paulo, is a party to a proceeding whose plaintiff claims labor amounts in general of R$ 1,476.

23.2. Judicial deposits

The Company has judicial deposits as follows.

TABLE 36 - Composition of judicial deposits

		Consolidated
	12/31/2017	12/31/2016
Tax	9,208	9,203
Civil	10,036	3,122
Labor	51,781	33,293
Total	71,025	45,618

23.3. 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:

TABLE 37 - Composition of lawsuits that are the responsibility of former owners

		Parent company		Consolidated
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Tax	41,328	48,829	115,419	138,014
Civil	1,281	5,778	24,382	13,300
Labor	1,968	3,011	22,421	33,224
Total	44,577	57,618	162,222	184,538

(All amounts in thousands of reais unless otherwise stated)

24. CURRENT AND DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

a) Income tax and social contribution

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

TABLE 38 - Reconciliation of the income tax and social contribution

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Profit before income tax and social contribution for the year	1,832,767	1,814,050	1,920,595	1,922,855
Combined nominal rate of income tax and social contribution - %	34%	34%	34%	34%
IRPJ and CSLL calculated at the standard rates	(623,141)	(616,777)	(653,002)	(653,771)
Equity in the results of investees	652,753	682,544	-	-
Tax incentive in subsidiaries entitled to the University for All Program (PROUNI) benefit	-	-	561,100	547,370
Additions (exclusions), net (i)	19,416	(12,215)	3,360	(35,007)
Difference in deemed profit rate of subsidiary	-	-	838	1,033
Unrecognized deferred IRPJ and CSLL on loss of subsidiaries for the period	467	(2,967)	(2,928)	(8,051)
Write-off of deferred IRPJ/CSLL on allocated goodwill on the sale of Uniasselvi (ii)	-	-	-	63,070
IRPJ and CSLL - other changes	54	-	52,353	27,136
Total IRPJ and CSLL	49,549	50,585	(38,279)	(58,220)
Current IRPJ and CSLL in the result	(1,035)	-	(97,000)	(61,973)
Deferred IRPJ and CSLL in the result	50,584	50,585	58,721	3,753

(i) The main additions and exclusions are: provisions for tax, labor and civil losses and for employee participation in profit.

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

b) Deferred income tax and social contribution

The deferred tax asset balances are recorded on the temporary differences identified in companies of the Group, and are classified into two groups:

TABLE 39 - Deferred income tax and social contribution assets

	Consolidated	
	12/31/2017	12/31/2016
Income tax and social contribution losses	168,830	199,869
Temporary differences (book/tax)	520,378	328,370
	689,208	528,239

In August 2017, AESA was partially merged into AESAPAR, which will allow the consumption of the income tax and social contribution losses during the next years through offset of the current taxes payable.

(All amounts in thousands of reais unless otherwise stated)

TABLE 40 - Deferred income tax and social contribution assets by year of realization

		Consolidated
Period	Total	%
2018	226,366	32.8
2019	127,310	18.5
2020	122,120	17.7
2021	106,706	15.5
2022 onwards	106,706	15.5
	462,842	67.2
	689,208	

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

TABLE 41 - Deferred income tax and social contribution - effect on profit (loss)

Parent company		Effect on profit		
	12/31/2016	Amortization of goodwill	Other	12/31/2017
In liabilities				
Goodwill on business combination	(744,903)	50,583	-	(694,320)
Non-current liabilities, net	(744,903)	50,583	-	(694,320)

Consolidated		Effect on profit (loss)		
	12/31/2016	Amortization of goodwill	Other	12/31/2017
In assets				
Income tax/social contribution:				
Income tax and social contribution losses	199,869	-	(31,039)	168,830
Temporary differences (book/tax)	328,370	-	192,008	520,378
Non-current assets	528,239	-	160,969	689,208
In liabilities				
Goodwill on business combination	(1,243,152)	(13,246)	-	(1,256,398)
Other adjustments	(24,539)	-	(89,104)	(113,643)
Non-current liabilities, net	(1,267,691)	(13,246)	(89,104)	(1,370,041)
	(739,452)	(13,246)	71,865	(680,833)

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.

(All amounts in thousands of reais unless otherwise stated)

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.

The tax credits not recognized because of ProUni for the period ended December 31, 2017, including PIS and COFINS, amounted to R$ 765,541 (December 31, 2016 -R$ 736,034).

25. EQUITY

a) Share capital

The Company's subscribed and paid-up capital at December 31, 2017 totaled R$ 4,363,825 (R$ 4,249,901 at December 31, 2016).

TABLE 42 - Composition of share capital

	12/31/2017	12/31/2016
Total shares (except treasury)	1,640,357,183	1,623,858,703
Total treasury shares	169,265	2,211,075
Total shares	1,640,526,448	1,626,069,778

In July, August and September 2017, under the terms of article 6 of the Company's bylaws, a capital increase was approved, respecting the authorized capital limit, through the exercise of stock options, in compliance with articles 166 and 171, §3, of Law 6,404, of December 15, 1976 (Brazilian Corporate Law), as amended, granted in the context of the Company's stock option plans, totaling a capital increase of R$ 113,924 (14,456,670 shares).

b) Treasury shares

TABLE 43 - Changes in treasury shares

		Number of shares
	12/31/2017	12/31/2016
At December 31, 2016	2,211,075	11,363,359
Repurchase of treasury shares (i)	200,000	845,100
Disposal of shares (ii)	(2,241,810)	(9,997,384)
At December 31, 2017	169,265	2,211,075

(All amounts in thousands of reais unless otherwise stated)

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 44 - Calculation of dividends

	Accumulated for 2017	Accumulated for 2016
Net profit for the year	1,882,316	1,864,635
Legal reserve calculation - 5%	(94,116)	(93,232)
Adjusted profit	1,788,200	1,771,403
Minimum mandatory dividends - 25%	447,050	442,851
Interim dividends - 15%	212,561	141,259
Total interim dividends paid in the year (i)	(566,831)	(494,407)
Dividends payable	92,780	89,703

(i) Distribution of interim dividends approved in the Board of Directors' meeting in 2017

e) Reserve for investments

The remaining balance of the profit for the year ended December 31, 2017, after the offset of accumulated losses, the recognition of the legal reserve and the proposal for payment of dividends in the amount of R$ 1,072,869 (R$ 1,151,412 at December 31, 2016), 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 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.

Stock option programs approved in the Board of Directors' meetings have the following characteristics:

(All amounts in thousands of reais unless otherwise stated)

TABLE 45 - Main characteristics of the plan

Plan	Grant date	Exercise price	Vesting period	Options granted - active
KROT_Plan2009	10/23/2009 to 05/06/2013	R$ 2.18 to R$ 5.78	5 lots with 12, 24, 36, 48 and 60-month term; or 4 lots with 6, 18, 30 and 42-month term	5,914,666
AEDU_Plan2010	08/17/2010 to 07/03/14	R$ 6.06 to R$ 11.20	3 lots with 36, 48 and 60-month term	213,489
AEDU_Plan2013	06/18/2013 to 07/03/2014	R$ 9.94 to R$ 11.20	3 lots with 36, 48 and 60-month term	4,428,403
KROT_Plan2013	11/26/2013 to 08/24/2015	R$ 5.67 to R$ 13.01	4 lots with 6, 18, 30 and 42-month term	9,130,000
KROT_Plan2015	10/05/2015 to 12/05/2017	R$ 8.42 to R$ 18.86	4 lots with 6, 18, 30 and 42-month term	25,477,794
				45,164,352

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.

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 46 - Changes in the stock option plans - 2017

PLANS	12/31/2016	Granted	Exercised (i)	Canceled/forfeited	12/31/2017	Average exercise price
KROT_Plan 2009	6,826,998	-	(912,332)	-	5,914,666	R$ 5.18
AEDU_Plan 2010	2,847,304	-	(2,578,069)	(55,746)	213,489	R$ 6.56
AEDU_Plan 2013	8,776,254	-	(4,251,224)	(96,627)	4,428,403	R$ 9.77
KROT_Plan 2013	14,930,000	-	(5,800,000)	-	9,130,000	R$7,34
KROT_Plan 2015	26,454,656	4,990,000	(3,156,855)	(2,810,007)	25,477,794	R$ 8.95
TOTAL	59,835,212	4,990,000	(16,698,480)	(2,962,380)	45,164,352	

(All amounts in thousands of reais unless otherwise stated)

(i) In the period ended December 31, 2017, 16,698,480 options were exercised, with 14,456,670 through a capital increase with the specific objective of delivering these new shares to the beneficiary and 2,241,810 in consideration of the disposal of treasury shares (9,753,657 options in the year ended December 31, 2016).

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".

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 previous grants, in accordance with the standards established in pronouncement CPC 10, which continue to be calculated under the Black and Scholes model.

The options contract with the longest maturity has as the last vesting date June 5, 2021.

The assumptions used for the calculation of the fair value of the grants of each outstanding Stock Option Plans are presented below:

TABLE 47 - Fair value calculation

	Plans				
	Kroton			AEDU	
	Plan 2009	Plan 2013	Plan 2015	Plan 2010	Plan 2013
Share price	R$2.31 to R$7.00	R$9.48 to R$15.84	R$8.81 to R$18.86	R$ 3.73	R$ 3.73
Risk-free rate	6.0% to 9.7%	7.0% to 12.5%	6.8% to 16.5%	12.6%	12.6%
Expectation of annual volatility	27.9% to 35.0%	24.7% to 37.3%	38.4% to 42.2%	31.1%	31.1%
Model for the Calculation of Volatility	Standard deviation	Standard deviation or EWMA	EWMA or Garch	Standard deviation	Standard deviation
Expected dividends	0% to 3.4%	2.1% to 3.5%	3.5%	2.6%	2.6%
Duration of the program in years	6 to 10	5 to 8	8	6	5
Option fair value on grant date (R$/share)	R$0.75 to R$2.22	R$2.44 to R$5.64	R$3.27 to R$7.46	R$ 2.73	R$ 5.55

In the period ended December 31, 2017, R$ 37,039 was recognized as an expense regarding the fair value of the options (R$ 54,986 at December 31, 2016).

(All amounts in thousands of reais unless otherwise stated)

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):

	Effective until	Monthly amount	Adjustment index
Unic Educacional	March 2020	232	IPCA
Unime LF	March 2020	650	IPCA
Iuni	March 2020	1,144	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 2032, with a fixed monthly amount of R$ 1,258, adjusted based on the IPCA.

(iii) Anhanguera Educacional Ltda. uses properties leased from HK Campinas Participações Ltda. (of which AFZ Participações Ltda., a company that is controlled by a family member of one of the members of the Company's Board of Directors, is a quotaholder). The agreement is effective until December 2024, with a fixed monthly amount of R$ 345, adjusted based on the IPCA.

(iv) On January 19, 2017, a donation agreement with charges was entered into between Kroton Educacional S.A. and Fundação Pitágoras, aiming to fulfill the social and institutional objectives of Fundação Pitágoras. There was a disbursement of R$ 2,149 referring to this agreement in 2017.

a) Remuneration of 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, 2017 was defined at a maximum of R$ 71,464 (R$ 66,688 in December 31, 2016), of which: R$ 55,069 of fixed and variable remuneration, and R$ 16,395 of stock option plan. Key management remuneration is as follows:

TABLE 48 - Management remuneration

	12/31/2017	12/31/2016
Salaries	11,379	9,710
Benefits	405	924
Social charges	2,400	2,113
Variable remuneration (i)	17,252	23,515
Stock option plan	17,773	24,709
	49,209	60,971

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

(All amounts in thousands of reais unless otherwise stated)

28. INSURANCE

The Group has a risk management program to limit risks, seeking cover in the market 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 at December 31, 2017:

TABLE 49 - Insurance policies contracted from third-party insurers

	Coverage
Property and equipment items	234,850
General Civil Liability and Executives	200,000
Vehicles	40,878
	475,728

29. NET REVENUE FROM SALES AND SERVICES

TABLE 50 - Composition of the net revenue

	Consolidated	
	12/31/2017	12/31/2016
In-class higher education		
Gross revenue	5,545,836	5,131,129
Deductions from gross revenue		
Taxes	(152,518)	(137,443)
ProUni	(692,205)	(673,043)
Discounts	(394,155)	(333,186)
Net revenue	4,306,958	3,987,457
Distance learning higher education		
Gross revenue	1,415,316	1,402,053
Deductions from gross revenue		
Taxes	(30,706)	(30,675)
ProUni	(225,465)	(216,169)
Discounts	(85,742)	(87,327)
Net revenue	1,073,403	1,067,882
Basic education		
Gross revenue	190,417	199,794
Deductions from gross revenue		
Taxes	(4,844)	(5,490)
Returns	(8,186)	(4,925)
Net revenue	177,387	189,379
Total		
Gross revenue	7,151,569	6,732,976
Deductions from gross revenue		
Taxes	(188,068)	(173,608)
ProUni	(917,670)	(889,212)
Discounts	(479,897)	(420,513)
Returns	(8,186)	(4,925)
Net revenue	5,557,748	5,244,718

(All amounts in thousands of reais unless otherwise stated)

30. COSTS AND EXPENSES BY NATURE

TABLE 51 - Composition of the costs and expenses by nature

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Salaries and payroll charges	(3,615)	(71,311)	(1,697,409)	(1,781,462)
Depreciation and amortization	(148,978)	(148,934)	(416,714)	(401,606)
Rental and condominium fees	-	-	(400,622)	(393,706)
Provision for impairment of trade receivables	-	-	(583,180)	(347,559)
Utilities, cleaning and security	(247)	(107)	(204,096)	(212,893)
Advertising and publicity	(257)	-	(306,996)	(263,677)
Third-party services	-	-	(18,645)	(22,841)
Consulting and advisory services	(2,355)	(518)	(151,256)	(111,111)
Cost of sales	-	-	(15,253)	(33,319)
Travel	-	-	(35,475)	(30,366)
Copyright	-	-	(7,211)	(11,454)
Taxes and contributions	(274)	(62)	(41,299)	(27,324)
Contingencies	63,667	23,968	72,802	55,408
Result on the sale of subsidiaries	-	-	25,560	253,907
Other income (expenses), net	(251)	11,058	(83,447)	(110,316)
	(92,310)	(185,906)	(3,863,241)	(3,438,319)
Cost of sales and services	-	-	(2,105,890)	(2,156,782)
Selling expenses	-	-	(941,876)	(666,984)
General and administrative expenses	(92,310)	(185,906)	(839,198)	(854,714)
Other operating income (expenses), net	-	-	(1,837)	(13,746)
Result on the sale of subsidiaries	-	-	25,560	253,907
	(92,310)	(185,906)	(3,863,241)	(3,438,319)

(All amounts in thousands of reais unless otherwise stated)

31. FINANCE RESULT

TABLE 52 - Composition of the finance result

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Finance income				
Interest on monthly tuition fees	-	-	145,166	134,611
Income from financial investments and marketable securities	9,176	2,815	132,384	114,170
Discounts obtained	-	-	1,364	1,514
Interest received	20	-	19,150	25,806
Other	6	622	22,962	3,825
	9,202	3,437	321,026	279,926
Finance costs				
Debentures - interest and costs (i)	-	-	(30,791)	(80,862)
Adjustment of obligations due to the purchase of subsidiaries	-	-	(10,395)	(18,923)
Bank and collection fees	(6)	(7)	(16,511)	(8,819)
Interest and fines for late payments	-	(7)	(2,693)	(7,570)
Interest and fines for late tax payments	(1)	-	(7,754)	(1,161)
Adjustment of contingencies	(3,817)	(10,765)	(11,686)	(31,677)
Other	(163)	(183)	(15,108)	(14,458)
	(3,987)	(10,962)	(94,938)	(163,470)
Finance result	5,215	(7,525)	226,088	116,456

(i) Refers to the interest on debentures of R$ 54,678 (Note 18 - Debentures), less capitalized interest of R$ 23,887 (R$ 20,714 at December 31, 2016) recorded in property and equipment and intangible assets in progress.

(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 53 - Information per Segment - Consolidated

12/31/2017

	In-class higher education	Distance learning higher education	Basic education	Un-allocated	Total
Net revenue	4,306,958	1,073,403	177,387	-	5,557,748
Cost of sales and services rendered	(1,842,092)	(172,865)	(90,933)	-	(2,105,890)
	2,464,866	900,538	86,454	-	3,451,858
Operating expenses:					
Selling expenses	(674,854)	(248,252)	(18,770)	-	(941,876)
General and administrative expenses	(296,843)	(73,811)	(6,166)	(462,378)	(839,198)
Other expenses, net	-	-	-	(1,837)	(1,837)
Result on the sale of FAIR, FAC and NOVATEC	-	-	-	25,560	25,560
Operating profit (loss) before finance result	1,493,169	578,475	61,518	(438,655)	1,694,507
Assets	12,167,981	5,741,837	219,185	538,760	3,460,036
Current and non-current liabilities	1,558,739	504,608	45,276	1,351,413	3,460,036

TABLE 54 - Information per Segment - 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 rendered	(1,845,512)	(207,134)	(104,136)	-	(2,156,782)
	2,141,945	860,748	85,243	-	3,087,936
Operating 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 sale of Uniasselvi	-	-	-	253,907	253,907
Other expenses, net	-	-	-	(13,746)	(13,746)
Operating profit (loss) before finance result	1,374,958	600,003	57,544	(226,106)	1,806,399
Assets	10,845,900	6,059,348	199,457	496,361	17,601,065
Current and non-current liabilities	1,515,120	782,360	36,793	1,412,326	3,751,701

(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 55 - Basic earnings per share

	12/31/2017	12/31/2016
Profit attributable to stockholders of the Company	1,882,316	1,864,635
Weighted average number of outstanding common shares (thousands)	1,625,332	1,619,308
Basic earnings per common share - R$	1.16	1.15

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, 2017, 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 56 - Diluted earnings per share

	12/31/2017	12/31/2016
Profit attributable to stockholders of the Company	1,882,316	1,864,635
Weighted average number of outstanding common shares (thousands)	1,625,332	1,619,308
Possible increase in common shares (thousands)	18,766	17,796
Diluted earnings per common share - R$	1.14	1.14

34. FUTURE COMMITMENTS

The Company and its subsidiaries rent buildings for its units and for administrative buildings, through various operating agreements that fall due on different dates, and for which payments are made on a monthly basis. At December 31, 2017, the total amounts equivalent to the full period of the agreements were:

	Consolidated
	12/31/2017
Up to 1 year	357,161
One to five years	1,201,241
More than 5 years	1,090,612
	2,649,014

35. APPROVAL OF THE ISSUANCE OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

The issuance of the parent company and consolidated financial statements was approved by the Board of Directors in a meeting held on March 16, 2018.

36. EVENTS AFTER THE REPORTING PERIOD

On March 16, 2018, under the terms of article 6, paragraph 2 of the Company's Bylaws, the Board of Directors approved the Company's capital increase in the amount of R$ 50 million, through capitalization of part of the balance of the reserve for investment, without the issue of new shares and without modifying the number of shares, considering that, with the appropriation of profit proposed in the financial statements for the year ended December 31, 2017, the balance of revenue reserves would exceed the limits of reserves established in article 199 of Law 6,404/76 and in the Company's bylaws.

* * *

Comments on the behavior of business projections:

	2017 (Projection)	1Q17 (Realized)	2Q17 (Realized)	3Q17 (Realized)	4Q17 (Realized)	2017 (Realized)
Net Revenues	R$ 5,485 million	R$ 1,365 million	R$ 1,519 million	R$ 1,324 million	R$ 1,350 million	R$ 5,558 million
EBITDA	R$ 2,195 million	R$ 595 million	R$ 641 million	R$ 544 million	R$ 476 million	R$ 2,256 million
EBITDA Margin	40.0%	43.6%	42.2%	41.1%	35.2%	40.6%
Interest and late payments on tuitions	R$ 135 million	R$ 44 million	R$ 28 million	R$ 42 million	R$ 32 million	R$ 145 million
Non-recurring costs and expenses	R$ 225 million	R$ 45 million	R$ 59 million	R$ 32 million	R$ 59 million	R$ 194 million
Adjusted EBITDA	R$ 2,420 million	R$ 640 million	R$ 700 million	R$ 577 million	R$ 534 million	R$ 2,451 million
Adjusted EBITDA Margin	44.1%	46.8%	46.1%	43.6%	39.6%	44.1%
Net profit	R$ 1,725 million	R$ 494 million	R$ 547 million	R$ 451 million	R$ 391 million	R$ 1,882 million
Amortization of intangible assets1	R$ 155 million	R$ 39 million	R$ 39 million	R$ 39 million	R$ 39 million	R$ 155 million
Income Tax/ Social Contribution - Sale of FAIR and FAC/FAMAT	-	-	-	R$ 8 million	R$ 1 million	R$ 9 million
Adjusted profit	R$ 2,105 million	R$ 577 million	R$ 645 million	R$ 530 million	R$ 489 million	R$ 2,240 million
Capex (total)	8.9% of net revenue	6.9% of net revenue	8.1% of net revenue	11.1% of net revenue	17.2% of net revenue	10.7% of net revenue

In item 11.1 of the Reference Form, the Company provided projections for the major line items in the statement of income for 2017, as reproduced above.

In the first six-month period, the most significant process of students funding in the year occurs, representing a great contribution for the annual result. In the first quarter, Kroton achieved 25% of net revenue and 26% of the adjusted EBITDA expected for 2017.

Part of the first funding in the year occurs in the second quarter, which average amount is higher, considering that it is not suffering the impact of scholarships and isolated discounts of funding; as a result, it represents a contribution higher than the first quarter for the annual result. The second quarter was responsible for another 28% of net revenue and 29% of the adjusted EBITDA estimated for 2017.

The third quarter concentrates the enrollment fees referring to the second process of funding in the year, which usually occurs on a smaller scale when compared to the first process at the beginning of the year. Therefore, the third quarter was responsible for 24% of net revenue and 24% of the Adjusted EBITDA projected for the year.

Finally, the fourth quarter still presented quite solid results, reaching 25% of the Net Revenue and 22% of the Adjusted EBITDA included in the Guidance disclosed for 2017.

Therefore, in the year to date, we had a Net Revenue 1% above our projection, with an Adjusted EBITDA 1% higher and an Adjusted Net Profit 6% higher. This result reflects the gains in the topline, with solid results of the student admissions and reenrollment process and the higher average ticket, due to the better mix of courses and annual adjustment in monthly tuition fees, as well the gains in efficiency in the bottom line, through various actions and the rigid control of costs and expenses.

Our total capex represented 10.7% of the Net Revenue in 2017, above the past expectation of investment of 8.9%, considering the acceleration of the greenfields project. It should be pointed out that there were no properties sold in 2017.

Kroton Educacional S.A.

(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" or "Parent company"), which comprise the balance sheet as at December 31, 2017 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Kroton Educacional S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statements of income, comprehensive 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.

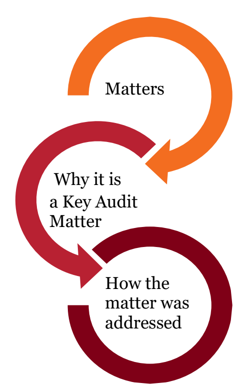
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kroton Educacional S.A. and of Kroton Educacional S.A. and its subsidiaries as at December 31, 2017, and the parent company's financial performance and the cash flows for the 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.

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

Revenue recognition

Why it is a key audit matter

As described in Note 29 - "Net revenue from sales and services", the revenue from higher education, both in-class and distance learning (EAD), represented 97% of the Company's revenue for the year ended December 31, 2017.

This matter was considered as one of the key audit matters due to various aspects, mainly the following:

- The appropriate revenue recognition requires specific controls for each modality of service rendered, as well as the exercise of a judgment by the management with regard to the expectation of receipt of future monthly tuition fees, especially for students with financing. This judgment directly affects the period in which revenues should be recognized 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 EAD, the billing process is carried out through different technology systems, which demands greater effort to confirm that the significant information in these systems were fully reflected in the financial statements.

How the matter was addressed in the audit

Significant aspects of our audit response involved, among others, the following:

(i) Update of our understanding of the significant controls associated with the billing process and revenue recognition analysis, as well as the understanding of the technology environment that supports the Company's control structure.

(ii) Tests of the effectiveness of certain internal controls considered as significant by us in relation to the procedures of enrollment and re-enrollment of the students.

(iii) Selection of samples of monthly tuition fees from students enrolled in the Student Financing Fund ("FIES"), confirmation of their adherence to the financing program and regularity of the related contracts. We also checked the record of the corresponding revenues in the appropriate period, considering the date of the effective approval of the financing by the National Education Development Fund (FNDE).

(iv) For the other revenues, we checked a sample of monthly tuition fees and compared them with 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.

(v) Based on the information contained in the Company's computerized systems, which are used in the billing and tuition payment processes, we applied procedures to reprocess the invoiced bases and their reconciliation with the accounting records.

We consider that the criteria adopted by management to determine the revenue from services rendered related to higher education courses and the related period for their recognition, as well as the disclosures in explanatory notes, are

Why it is a key audit matter	How the matter was addressed in the audit
	appropriate, in all material respects, in the context of the financial statements.
Provision for impairment of trade receivables	
As described in Note 10 - "Trade receivables", at December 31, 2017, the Company presented a provision for impairment of trade receivables in the amount of R$ 994,730 thousand. This matter was considered as one of the key audit matters due to: (i) the significance of the balance of the provision for impairment of trade receivables; (ii) the evolution of the balance of accounts receivable in the Private Payment Plan (PEP), for which the Company set up a provision of 50% of the net revenue of the portion financed every year; and (iii) the evaluation made by management, which involves significant assumptions and judgments that may result in significant impacts on the financial statements.	Our audit approach considered the update of the understanding of the main controls associated with the process of analysis of credit and of the outstanding receivables portfolio, per default range. Other significant aspects of our audit approach included discussion with management of the evolution of the balances and consistency of the criteria for this year, update of the understanding and tests of assumptions and models used in the estimates adopted to determine the provision for impairment of trade receivables. We consider that the criteria and assumptions that management adopted to determine the provision for impairment of trade receivables are consistent and the disclosures made are appropriate, in all material aspects, in the context of the financial statements.
Impairment of intangible assets of indefinite useful life	
As described in Note 15 - "Intangible assets", the balance of "Goodwill and intangible assets allocated" totaled R$ 10,729 million, or 57% of the total assets of the Company at December 31, 2017. These intangible assets mainly arise from the business combinations made by the Company in recent years and are subject to annual impairment assessment. This matter was considered as one of the key audit matters 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	Significant aspects of our audit response involved, among others, the following main procedures: (i) We updated our understanding of the significant controls associated with the analysis of the recoverability of intangible assets with indefinite useful lives. (ii) We evaluated the management definition of Cash-generating Units (CGUs) in relation to the criteria established by the CPC Technical Pronouncement 01, "Impairment of Assets". (iii) We obtained the support of our asset valuation specialists in the performance of the following main audit procedures:

Kroton Educacional S.A.

Why it is a key audit matter	How the matter was addressed in the audit
associated with the projected cash flows and discount rate used.	• comparison of the significant assumptions with the Business Plan approved by management; • evaluation of the reasonableness of the significant assumptions, including comparisons with estimates published by independent market sources (benchmarks), understanding of the main variations in the period and review of the retrospective of the 2016 projections in relation to the 2017 data; • sensitivity analysis of the significant assumptions and evaluation of the potential impacts within an interval of possible results; • discussion of the criteria used by management to determine the discount rate and projections of inflation; • review of the logical coherence and arithmetic consistency of the model prepared by management; and • evaluation of the technical competence of the management specialists responsible for the estimates. We consider that the criteria and assumptions that management adopted for the impairment tests are consistent and the disclosures in explanatory notes are appropriate, in all material aspects, in the context of the financial statements.
Provisions for tax, labor and civil losses and judicial deposits	
At December 31, 2017, as described in Note 23 - "Provisions for tax, labor and civil losses and judicial deposits", the Company had provisions amounting to R$ 590,239 thousand, related to judicial proceedings which likelihood of loss was classified as probable. Additionally, the Company is a party in proceedings with losses classified as possible, in the amount of R$ 665,398 thousand.	Our audit approach considered the update of the understanding of the main controls related to the judicial proceedings and contingencies and the confirmation of information with the external lawyers responsible for monitoring the proceeding involving the Company. Additionally, in our audit strategy, we involved our labor and tax specialists, as appropriate, to read and discuss the main

Why it is a key audit matter	How the matter was addressed in the audit
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 matter was considered as one of the key audit matters due to: (i) the significance of the amounts of the judicial proceedings provisioned and contingent liabilities disclosed in explanatory note, as well as the large volume of proceedings involving the Company; (ii) the significant judgments on different interpretations of doctrines and case laws used to estimate the amounts and the probability of an outflow of resources as a result of these proceedings; and Part of the contingencies derived 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. Additionally, 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.	judicial proceedings, including the classification of the likelihood of loss attributed to the Company by the internal and external legal advisors. Other significant aspects of our audit approach included the evaluation of the technical qualification of the Company's legal advisors, tests of recalculation of the amount of exposure of the judicial and administrative proceedings, test of financial restatement in conformity with the applicable legislation and reading of confirmations of external legal advisors. We consider that the criteria and assumptions that management adopted to determine the provision for judicial proceedings and contingencies are consistent and the disclosures made on contingent liabilities are appropriate, in all material aspects, in the context of the financial statements.

Other matters

Statements of value added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2017, 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 Pronouncements 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.

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 16, 2018

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Marcos Donizete Panassol
Contador CRC 1SP155975/O-8

Opinions and representations/Opinion of the Statutory Audit Board or Equivalent

STATUTORY AUDIT BOARD'S REPORT

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, 2017, and Management's proposal for allocation of the profit for the year ended December 31, 2017. 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 December 31, 2017 are suitable to be approved by the Company's Stockholders at the Annual General Meeting.

Belo Horizonte, March 16, 2018

Antônio Lúcio dos Santos

Lucila de Oliveira Carvalho

Ricardo Scalzo

José Securato Junior

Opinions and representations/ Statutory Audit Board Summary Report (statutory, established in specific Brazilian Securities Commission (CVM) regulation)

The members of the Statutory Audit Board of KROTON EDUCACIONAL S.A., a publicly-held corporation, headquartered at Rua Santa Madalena Sofia, Nº 25, 4th floor, Room 01, CEP – 30.380-650, District of Vila Paris, City of Belo Horizonte, State of Minas Gerais, enrolled with CNPJ/MF under Nº 02.800.026/0001-40 (“Company”), in compliance with its legal and corporate statutory duties, as prescribed in the Internal Rules of the Statutory Audit Committee, and based on the work carried out during 2017, proceeded with the audit and analysis of the financial statements, accompanied by the independent auditor's report and the annual Management Report for the year ended December 31, 2017 and, considering the information provided by the Company's management and the independent auditors of the Company, as well as the proposal for appropriation of the results of operations for the year ended December 31, 2017, are unanimously of the opinion that they reflect, adequately, in all material aspects, the financial position of the Company and its subsidiaries, and recommend the approval of the documents by the Company's Board of Directors and their submission to the Annual General Stockholders' Meeting, under the terms of the Brazilian Corporate Law.

São Paulo, March 16, 2018.

Francisco H. Passos Fernandes
Member of the Committee

Luiz Antônio de Moraes Carvalho
Member of the Committee

Nicolau Ferreira Chacur
Member of the Committee

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, 2017.

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 16, 2018.