

(Convenience Translation into English from the  
Original Previously Issued in Portuguese)

## **Kroton Educacional S.A.**

Individual and Consolidated  
Interim Financial Information for the  
Quarter Ended June 30, 2019 and  
Report on Review of Interim  
Financial Information

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders, Directors and Management of  
Kroton Educacional S.A.  
Belo Horizonte - MG

### **Introduction**

We have reviewed the accompanying individual and consolidated interim financial information of Kroton Educacional S.A. ("Company"), identified as Parent and Consolidated, respectively, included in the Interim Financial Information Form (ITR), for the quarter ended June 30, 2019, which comprises the balance sheet as at June 30, 2019 and the related statements of income and of comprehensive income for the three- and six-month periods then ended and the statements of changes in equity and of cash flows for the six-month period then ended, including the explanatory notes.

Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with technical pronouncement CPC 21 (R1) - Interim Financial Reporting and international standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of such information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of Interim Financial Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of review**

We conducted our review in accordance with Brazilian and international standards on review of interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the standards on auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Other matters**

#### *Restatement of the comparative financial statements*

On March 29, 2019, the predecessor auditors issued an unmodified opinion on the Company's financial statements for the year ended December 31, 2018, which are being restated, and issued a new opinion thereon, without any modifications, on August 14, 2019. As described in note 2.1 to the individual and consolidated interim financial information, the comparative balances reported in the interim financial information for June 30, 2019 have been adjusted and are being restated pursuant to technical pronouncements CPC 23 (IAS 8) - Accounting Policies, Changes in Accounting Estimates and Errors and CPC 15 (R1) (IFRS 3) - Business Combinations. Our conclusion is not modified in respect of this matter

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## Conclusion on the individual and consolidated interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the ITR referred to above is not prepared, in all material respects, in accordance with technical pronouncement CPC 21 (R1) and international standard IAS 34, applicable to the preparation of Interim Financial Information (ITR), and presented in accordance with the standards issued by CVM.

## Other matters

### *Statements of value added*

We have also reviewed the individual and consolidated statements of value added ("DVA") for the six-month period ended June 30, 2019, prepared under the responsibility of the Company's Management, the presentation of which in the interim financial information is required by the standards issued by CVM applicable to the preparation of Interim Financial Information (ITR) and is considered as supplemental information for International Financial Reporting Standards (IFRS), issued by IASB, which do not require the presentation of a DVA. These statements were subject to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they are not prepared, in all material respects, in relation to the interim financial information taken as a whole.

### *Amounts corresponding to the year ended December 31, 2018 and three- and six-month periods ended June 30, 2018*

The amounts corresponding to the year ended December 31, 2018 and three- and six-month periods ended June 30, 2018, presented for purposes of comparison, were previously audited and reviewed by other independent auditors, who issued opinions thereon, dated March 29, 2019 (reissued without any qualification on August 14, 2019) and August 14, 2018, respectively.

The accompanying individual and consolidated interim financial information has been translated into English for the convenience of readers outside Brazil.

Belo Horizonte, August 14, 2019

  
DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

  
Roberto Torres dos Santos  
Engagement Partner

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

**BALANCE SHEETS AS AT JUNE 30, 2019 AND 2018**  
(In thousands of Brazilian reais - R\$)

ASSETS	Notes	Parent		Consolidated	
		06/30/2019	12/31/2018	06/30/2019	12/31/2018
			(Restated Note 2.1)		(Restated Note 2.1)
NONCURRENT ASSETS					
Cash and cash equivalents	7	18,345	10,057	235,366	1,485,611
Securities	8	-	-	764,182	1,098,185
Trade receivables	9	-	20	2,347,068	1,940,313
Inventories	10	-	-	427,519	387,507
Advances	-	76	-	90,074	69,239
Recoverable taxes	11	6,058	3,913	383,832	315,169
Receivables from sale of subsidiaries	12	-	-	136,896	132,854
Other receivables	13	144	179	137,009	150,937
Related parties	27	9,445	-	-	304
Total current assets		34,068	14,169	4,521,946	5,580,119
CURRENT ASSETS					
Securities	8	-	-	17,204	11,774
Trade receivables	9	-	-	718,476	694,283
Advances	-	-	-	1,680	1,679
Recoverable tax	11	-	-	6,447	5,829
Receivables from sale of subsidiaries	12	-	-	376,579	361,551
Other receivables	13	-	-	66,662	58,125
Guarantee against losses in tax, labor and civil contingencies	23	43,125	43,509	1,106,418	933,219
Escrow deposits	22.3	358	298	111,500	102,656
Deferred income tax and social contribution	24	-	-	705,405	748,501
Related parties	27	829,551	-	-	-
Investments	14	16,587,737	16,539,405	-	-
Property, plant and equipment	15	-	-	5,369,373	2,494,528
Intangible assets	16	67,976	69,560	20,835,342	20,956,865
Total noncurrent assets		17,528,747	16,652,772	29,315,086	26,369,010
TOTAL ASSETS		17,562,815	16,666,941	33,837,032	31,949,129

The accompanying notes are an integral part of this interim financial information.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

**BALANCE SHEETS AS AT JUNE 30, 2019 AND 2018**  
(In thousands of Brazilian reais - R\$)

LIABILITIES AND EQUITY	Notes	Parent		Consolidated	
		06/30/2019	12/31/2018	06/30/2019	12/31/2018
			(Restated Note 2.1)		(Restated Note 2.1)
CURRENT LIABILITIES					
Borrowings and financing	17	-	-	494	4,671
Debentures	17	9,185	-	509,325	522,846
Trade payables	-	355	482	361,057	474,980
Trade payables purchaser’s risk	18	-	-	337,350	391,974
Leases	19	-	-	224,319	-
Payroll and related taxes	20	-	2,970	499,611	508,251
Income tax and social contribution payable	-	-	-	28,048	27,875
Taxes payable	-	515	8	82,294	75,676
Advances from customers	-	-	-	262,795	303,857
Taxes in installments	-	-	-	14,407	14,521
Payables - acquisitions	21	-	-	130,124	132,440
Dividends payable	-	58	26,877	58	27,178
Other payables	-	6	82	43,725	81,227
Total current liabilities		10,119	30,419	2,493,607	2,565,496
NONCURRENT LIABILITIES					
Borrowings and financing	17	-	-	442	50,445
Debentures	17	798,303	-	7,912,894	7,105,660
Leases	19	-	-	3,037,228	-
Payables - acquisitions	21	-	-	193,397	193,357
Provision for civil, labor, and tax contingencies	22.1	46,051	63,989	384,031	422,933
Liabilities assumed in business combination	23	-	-	3,121,860	3,213,048
Taxes in installments	-	-	-	22,734	27,299
Deferred income tax and social contribution	24	657,649	669,873	620,093	879,977
Other payables		46	16	99	17,854
Total noncurrent liabilities		1,502,049	733,878	15,292,778	11,910,573
TOTAL LIABILITIES		1,512,168	764,297	17,786,385	14,476,069
EQUITY					
Issued capital	25	5,011,677	4,425,677	5,011,677	4,425,677
Capital reserves		6,354,284	6,379,742	6,354,284	6,379,742
Treasury shares		(124,326)	(190,280)	(124,326)	(190,280)
Earnings reserves		4,809,012	5,287,505	4,809,012	5,287,505
		16,050,647	15,902,644	16,050,647	15,902,644
Noncontrolling interests		-	-	-	1,570,416
Total equity		16,050,647	15,902,644	16,050,647	17,473,060
TOTAL LIABILITIES AND EQUITY		17,562,815	16,666,941	33,837,032	31,949,129

The accompanying notes are an integral part of this interim financial information.

# KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED JUNE 30, 2019 AND 2018 (In thousands of Brazilian reais - R\$)

	Notes	Parent				Consolidated			
		04/01 to 06/30/2019	06/30/2019	04/01 to 06/30/2018	06/30/2018	04/01 to 06/30/2019	06/30/2019	04/01 to 06/30/2018	06/30/2018
NET OPERATING REVENUE									
Higher education	28	-	-	-	-	1,416,907	2,682,171	1,476,482	2,803,798
K-12 education	28	-	-	-	-	325,448	899,291	49,791	85,800
		-	-	-	-	1,742,355	3,581,462	1,526,273	2,889,598
COST OF SALES AND SERVICES									
Cost of services	29	-	-	-	-	(552,152)	(1,113,833)	(581,991)	(1,067,448)
Cost of sales	29	-	-	-	-	(86,226)	(206,784)	(10,386)	(15,480)
		-	-	-	-	(638,378)	(1,320,617)	(592,377)	(1,082,928)
GROSS PROFIT		-	-	-	-	1,103,977	2,260,845	933,896	1,806,670
OPERATING INCOME (EXPENSES)									
Selling expenses	29	-	-	-	-	(357,827)	(708,864)	(303,029)	(578,124)
General and administrative expenses	29	(14,917)	(14,040)	(31,044)	19,812	(475,585)	(890,826)	(206,078)	(377,410)
Other operating expenses, net	29	-	-	-	-	(18,899)	(16,437)	(5,797)	(6,527)
Share of results of investees	14	153,719	385,620	490,148	907,413	(1,171)	(594)	-	-
OPERATING PROFIT BEFORE FINANCE INCOME (COSTS)		138,802	371,580	459,104	927,225	250,495	644,124	418,992	844,609
		138,802	371,580	459,104	927,225	250,495	644,124	418,992	844,609
FINANCE INCOME (COSTS)									
Finance Income	30	9,148	9,290	1,435	4,374	70,859	179,071	65,458	135,362
Finance costs	30	(9,813)	(9,919)	(193)	(560)	(262,414)	(507,769)	(19,079)	(29,769)
		(665)	(629)	1,242	3,814	(191,555)	(328,698)	46,379	105,593
OPERATING PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		138,137	370,951	460,346	931,039	58,940	315,426	465,371	950,202
INCOME TAX AND SOCIAL CONTRIBUTION									
Current	24	685	-	890	(500)	4,851	(48,389)	(21,705)	(42,086)
Deferred	24	6,111	12,223	6,111	12,223	76,047	122,950	23,681	34,646
		6,796	12,223	7,001	11,723	80,898	74,561	1,976	(7,440)
PROFIT FOR THE PERIOD		144,933	383,174	467,347	942,762	139,838	389,987	467,347	942,762
ATTRIBUTABLE TO									
Owners of the Company		144,933	383,174	942,762	942,762	144,933	383,174	942,762	942,762
Noncontrolling interests		-	-	-	-	(5,095)	6,813	-	-
Basic earnings per common share - R\$	32	0.24	0.24	0.58	0.58	0.24	0.24	0.58	0.58
Diluted earnings per common share - R\$	32	0.23	0.23	0.57	0.57	0.23	0.23	0.57	0.57

The accompanying notes are an integral part of this interim financial information.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE PERIODS ENDED JUNE 30, 2019 AND 2018  
(In thousands of Brazilian reais - R\$)

	Parent				Consolidated			
	04/01 to 06/30/2019	06/30/2019	04/01 to 06/30/2018	06/30/2018	04/01 to 06/30/2019	06/30/2019	04/01 to 06/30/2018	06/30/2018
Profit for the period	144,933	383,174	467,347	942,762	139,838	389,987	467,347	942,762
Other comprehensive income	-	-	-	-	-	-	-	-
CONSOLIDATED COMPREHENSIVE INCOME FOR THE PERÍODO	144,933	383,174	467,347	942,762	139,838	389,987	467,347	942,762
Attributable to owners of the Company	144,933	383,174	942,762	942,762	144,933	383,174	467,347	942,762
Attributable to noncontrolling interests	-	-	-	-	(5,095)	6,813	-	-

The accompanying notes are an integral part of this interim financial information.

# KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

## STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS ENDED JUNE 30, 2019 AND 2018 (In thousands of Brazilian reais - R\$)

	Share capital	Capital reserve	Earnings reserves	Treasury shares	Retained earnings	Total equity	Noncontrolling interests	Total equity
BALANCE AT DECEMBER 31, 2017	4,363,825	6,339,682	4,506,725	(2,506)	-	15,207,726	-	15,207,726
Comprehensive income for the period								
Profit for the period	-	-	-	-	942,762	942,762	-	942,762
Total comprehensive income for the period	-	-	-	-	942,762	942,762	-	942,762
Shareholder contributions and distributions to shareholders								
Capital increase	61,852	-	(50,000)	-	-	11,852	-	11,852
Share buyback into treasury	-	-	-	(220,281)	-	(220,281)	-	(220,281)
Recognized granted stock options	-	15,431	-	-	-	15,431	-	15,431
Treasury shares sold	-	(290)	-	1,579	-	1,289	-	1,289
Dividends	-	-	-	-	(236,326)	(236,326)	-	(236,326)
Total shareholder contributions and distributions to shareholders	61,852	15,141	(50,000)	(218,702)	(236,326)	(428,035)	-	(428,035)
BALANCE AT JUNE 30, 2018	4,425,677	6,354,823	4,456,725	(221,208)	706,436	15,722,453	-	15,722,453
	Share capital	Capital reserve	Earnings reserves	Treasury shares	Retained earnings	Total equity	Noncontrolling interests	Total equity
BALANCE AT DECEMBER 31, 2018	4,425,677	6,379,742	5,287,505	(190,280)	-	15,902,644	104,186	16,006,830
Effects of the restatement (Note 2.1)	-	-	-	-	-	-	1,466,230	1,466,230
BALANCE AT DECEMBER 31, 2018 (RESTATED)	4,425,677	6,379,742	5,287,505	(190,280)	-	15,902,644	1,570,416	17,473,060
Initial adoption of IFRS 16 <i>Leases</i>	-	-	(185,136)	-	-	(185,136)	-	(185,136)
BALANCE AT JANUARY 1, 2019	4,425,677	6,379,742	5,102,369	(190,280)	-	15,717,508	1,570,416	17,287,924
Comprehensive income for the period								
Profit for the period	-	-	-	-	383,174	383,174	6,813	389,987
Total comprehensive income for the period	-	-	-	-	383,174	383,174	6,813	389,987
Shareholder contributions and distributions to shareholders								
Capital increase	586,000	-	(586,000)	-	-	-	-	-
Recognized granted stock options	-	(3,352)	-	-	-	(3,352)	-	(3,352)
Dividends	-	-	-	-	(90,531)	(90,531)	-	(90,531)
Treasury shares sold	-	(51,439)	-	65,954	-	14,515	-	14,515
Transation between shareholders	-	29,333	-	-	-	29,333	(1,577,229)	(1,547,896)
Total shareholder contributions and distributions to shareholders	586,000	(25,458)	(586,000)	65,954	(90,531)	(50,035)	(1,577,229)	(1,627,264)
BALANCE AT JUNE 30, 2019	5,011,677	6,354,284	4,516,369	(124,326)	292,643	16,050,647	-	16,050,647

The accompanying notes are an integral part of this interim financial information.



**KROTON EDUCACIONAL S.A. AND SUBSIDIARIES**

**STATEMENTS OF CASH FLOWS FROM OPERATING ACTIVITIES  
FOR THE PERIODS ENDED JUNE 30, 2019 AND 2018  
(In thousands of Brazilian reais - R\$)**

	Notes	Parent		Consolidated	
		06/30/2019	06/30/2018	06/30/2019	06/30/2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before income tax and social contribution		370,951	931,039	315,426	950,202
Adjustments to profit before income tax and social contribution					
Depreciation and amortization	15 e 16	3,830	8,358	256,087	169,067
IFRS 16 depreciation	30	-	-	151,895	-
Amortization of allocated goodwill	29	35,951	20,761	181,855	36,248
Amortization of publishing cost		-	-	42,519	-
Amortization of inventory appreciation		-	-	4,797	-
Allowance for doubtful debts	9	-	-	398,353	343,606
Provision for (Reversal of) tax, labor, and civil contingencies	22	(17,724)	(23,803)	(60,301)	(47,176)
Allowance for inventory losses		-	-	13,581	24
Financial charges on borrowings and debentures	17	9,702	-	284,504	10,494
Financial charges arising on acquisitions	21	-	-	14,030	4,694
Financial charges on leases	19	-	-	151,212	-
Stock option granting		(16,750)	15,431	(3,352)	15,431
Gain on sale or disposal of assets and other investments		-	-	25,554	10,476
Income from securities	30	-	-	(49,908)	-
Share of results of investees	14	(385,620)	(907,413)	594	-
<b>Changes in operating assets and liabilities:</b>					
(Increase) decrease in trade receivables		20	-	(818,367)	(952,215)
(Increase) decrease in inventories		-	-	(100,909)	3,153
(Increase) decrease in advances		(76)	29	(20,836)	(5,629)
(Increase) decrease in recoverable taxes		(2,145)	(1,048)	(21,665)	50,381
(Increase) decrease in escrow deposits		(60)	(3)	(193)	(25,593)
(Increase) decrease in related parties		(29,368)	-	304	-
(Increase) decrease in other receivables		35	(167)	6,425	(11,562)
(Decrease) increase in trade payables		(127)	98	(114,245)	20,013
(Decrease) increase in trade payables purchaser's risk		-	-	(54,624)	9,213
(Decrease) increase in finance leases		-	-	(203,248)	-
(Decrease) increase in payroll and related taxes		(2,970)	(48,339)	(8,640)	13,081
(Decrease) increase in taxes payable		506	(532)	(47,276)	(34,545)
(Decrease) increase in advances from customers		-	-	(41,062)	(11,401)
(Decrease) increase in taxes in installments		-	-	(5,679)	(11,749)
Payment of provision for tax, labor, and civil contingencies	22	170	(6)	(86,669)	(46,982)
(Decrease) increase in other payables		46,040	7,124	(3,598)	(35,134)
<b>Cash generated by (used in) operating activities</b>		<b>12,365</b>	<b>1,529</b>	<b>206,564</b>	<b>454,097</b>
Income tax and social contribution paid		-	-	(47,280)	(48,187)
Interest on borrowings and debentures paid	17	-	-	(267,324)	(11,118)
<b>Net cash (used in) generated by operating activities</b>		<b>12,365</b>	<b>1,529</b>	<b>(108,040)</b>	<b>394,792</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Redemption of securities		-	-	378,481	85,351
Increase of property, plant and equipment	15	-	-	(184,786)	(173,248)
Increase of intangible assets	16	-	-	(141,163)	(115,624)
Payables for acquisitions	21	-	-	(76,600)	(112,782)
Acquisitions of subsidiaries		-	-	(62,653)	385
Increase in subsidiaries' capital		(178,700)	(240,000)	-	10,216
Receivables from former owners		-	-	-	859
Dividends received from subsidiaries		305,485	626,340	-	-
Private purchase of debentures		(800,000)	-	-	-
Interest on private debentures		(9,628)	-	-	-
<b>Net cash (used in) generated by investing activities</b>		<b>(682,843)</b>	<b>386,340</b>	<b>(86,721)</b>	<b>(304,843)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Capital increase		-	11,852	-	11,852
Sale (buyback) of shares into treasury		14,515	(218,701)	14,515	(218,701)
Acquisition of noncontrolling interests		-	-	(1,712,766)	-
Issue of debentures		797,786	-	797,786	-
Repayment of borrowings and financing and debentures	17	-	-	(21,484)	(73,747)
Payment of dividends to shareholders		(133,535)	(329,106)	(133,535)	(329,106)
<b>Net cash used in financing activities</b>		<b>678,766</b>	<b>(535,955)</b>	<b>(1,055,484)</b>	<b>(609,702)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, NET</b>		<b>8,288</b>	<b>(148,086)</b>	<b>(1,250,245)</b>	<b>(519,753)</b>
Cash and cash equivalents at the beginning of the period	7	10,057	200,570	1,485,611	921,328
Cash and cash equivalents at the end of the period	7	18,345	52,484	235,366	401,575
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, NET</b>		<b>8,288</b>	<b>(148,086)</b>	<b>(1,250,245)</b>	<b>(519,753)</b>

The accompanying notes are an integral part of this interim financial information.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF VALUE ADDED  
FOR THE PERIODS ENDED JUNE 30, 2019 AND 2018  
(In thousands of Brazilian reais - R\$)

	Controladora		Consolidated	
	06/30/2019	06/30/2018	06/30/2019	06/30/2018
REVENUE				
Revenue from sales and services	-	-	3,581,462	2,889,598
Other income	-	-	70,198	(983)
Recognition of allowance for doubtful debts	-	-	(398,353)	(343,606)
INPUTS PURCHASED FROM THIRD PARTIES				
Cost of sales and services	-	-	(143,348)	(7,180)
Supplies, power, outside services and other inputs	22,015	15,096	(371,001)	(427,206)
Derecognition of goodwill of subsidiaries sold	-	-	-	-
GROSS VALUE ADDED	22,015	15,096	2,738,958	2,110,623
Depreciation and amortization	(1,554)	(29,119)	(405,632)	(205,315)
Amortization of allocated goodwill	(35,951)	-	(181,855)	-
Amortization of publishing costs	-	-	(42,519)	-
NET VALUE ADDED	(15,490)	(14,023)	2,108,952	1,905,308
WEALTH RECEIVED IN TRANSFER				
Share of results of investees	385,620	907,413	(594)	-
Finance income	9,290	4,374	179,071	135,362
TOTAL WEALTH FOR DISTRIBUTION	379,420	897,764	2,287,429	2,040,670
Personnel:				
Direct compensation	(359)	(31,637)	761,172	591,012
Benefits	-	-	70,793	45,074
Payroll taxes	(1,107)	(2,200)	275,717	201,188
Taxes, fees and contributions				
Federal	(12,223)	(11,724)	(58,160)	7,750
State	2	3	269	170
Municipal	14	-	4,640	16,012
Lenders and lessors:				
Finance costs	9,919	560	507,769	29,769
Rentals	-	-	286,868	207,448
Copyrights	-	-	48,374	(515)
Shareholders:				
Earnings retained in the period	383,174	942,762	389,987	942,762
TOTAL WEALTH DISTRIBUTED	379,420	897,764	2,287,429	2,040,670

The accompanying notes are an integral part of this interim financial information.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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#### **1. GENERAL INFORMATION**

Kroton Educacional S.A. (“Company”, “Parent”, or “Kroton”), with registered head office at Rua Santa Madalena Sofia, 25, Belo Horizonte, Minas Gerais, and its subsidiaries (collectively “Group”) is primarily engaged in offering in-class and distance learning undergraduate and graduate courses; publishing, selling and distributing textbooks, support materials, and workbooks, especially with educational, literary, and informative content, and teaching systems; offering, through its schools, K-12 education, pre-college preparatory courses, language courses for children and teenagers; providing educational solutions for professional and higher education, among other supplementary activities, such as developing education technology with management and further education services; the management of child, primary, and secondary education activities; advising and/or facilitating direct and indirect student loans according to the students school level; and developing software for adaptive teaching and optimizing academic management.

The Group owns 79 companies, including Kroton Educacional S.A., and consists of 18 sponsors of college education entities, 158 college education units, distributed among 21 Brazilian states and 116 Brazilian cities, as well as 1,510 distance learning (EAD) Graduation Centers accredited by the Ministry of Education (MEC), located in all Brazilian states and the Federal District. In K-12 Education, the Company also owns 3,961 associated schools nationwide, including Somos.

The Company is listed on B3. – Brasil, Bolsa, Balcão (São Paulo stock exchange), in the special listing segment called *Novo Mercado*, under ticker symbol KROT3 where it trades its common shares.

The Company conducts its activities through its direct subsidiaries: Editora e Distribuidora Educacional S.A. (“EDE”) e Anhanguera Educacional Participações S.A. (“Anhanguera”).

In the year ended December 31, 2018, the Company acquired, through its indirect subsidiary Saber Serviços Educacionais S.A. (“Saber”), the Somos Group as part of its growth and expansion plan.

The Somos Group is primarily engaged in (i) publishing, selling and distributing textbooks, support materials, and workbooks, especially with educational, literary, and informative content, and teaching systems; (ii) offering, through its schools, K-12 education, pre-college preparatory courses, language courses for children and teenagers; (iii) providing educational solutions for professional and higher education, among other supplementary activities, such as developing education technology with management and further education services. The full solutions portfolio is structured with the main trademarks that are quality benchmarks: Editora Ática, Editora Scipione, Editora Saraiva, Editora Érica, Anglo, pH, SER, GEO, OLEM, Ético, Colégio pH, Sigma, Motivo, Maxi, Anglo 21, Colégio Integrado, Red Balloon, and Alfacon.

This individual and consolidated interim financial information was approved by the Company’s Board of Directors and authorized for issue on August 14, 2019.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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## **2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The Company presents its individual and consolidated interim financial information pursuant to CPC 21 (R1) *Interim Financial Reporting*, issued by the Accounting Pronouncements Committee (“CPC”) and IAS 34 *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”), as well as the standards issued by the Brazilian Securities and Exchange Commission (“CVM”).

Based on Management’s assessment on the main impacts of the information to be disclosed, the notes below are not being presented:

- Summary of Significant Accounting Policies;
- Key Estimates and Critical Accounting Judgments;
- Insurance.

The notes are being presented consistently with the perfect understanding of this interim financial information if read together with the financial statements for the year ended December 31, 2018.

The accounting policies adopted in the preparation of this quarterly information are consistent with the policies disclosed in note 2 to the financial statements for the year ended December 31, 2018, except for:

- (i) change of the measurement method of noncontrolling interests in the acquiree, pursuant to IFRS 3/CPC 15 (R1) *Business Combinations*.
- (ii) adoption of IFRS 16/CPC 06 (R2) *Leases*, beginning January 1, 2019.

### **2.1. Restatement of the comparative figures as at December 31, 2018**

As described in note 4.3 to the financial statements for the year ended December 31, 2018, on October 11, 2018 the Company completed the acquisition of 73.35% of the total and voting capital of Somos Educação S.A. for R\$4,566,542, of which R\$4,116,542 were paid to the selling shareholders and R\$450,000 were retained in escrow accounts, in addition to assuming liabilities amounting to R\$2,600,630. Additionally, on November 8, 2018, the Company submitted to the Brazilian Securities and Exchange Commission (“CVM”) and B3 S.A. – Brasil, Bolsa, Balcão the request to register a mandatory public tender offer to acquire the Somos remaining shares (OPA) and the related request to cancel its publicly held company registration.

Accordingly, in said note 4.3 the Company discloses the statement of calculation of the excess acquisition price on the fair value of the assets acquired and liabilities assumed in the acquisition of Somos, based on preliminary valuations, as permitted by IFRS 3/CPC 15 (R1) *Business Combinations*.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

Also, pursuant to IFRS 3/CPC 15 (R1), Management has preliminarily elected for the recognition of noncontrolling interests using the proportional interest method.

On June 30, 2019, Management completed the allocation of the excess acquisition price on the fair value of assets and liabilities and, pursuant to IFRS 3/CPC 15 (R1), revised the preliminary allocations and adjusted retrospectively the amounts recognized as at December 31, 2018 to reflect the conditions existing at the acquisition date. Additionally, still within the one-year period from the acquisition date prescribed by said standard, Management changed the measurement method of noncontrolling interests to fair value, replacing the proportional interests in the acquiree's net assets, because it understands that his method reflects more appropriately the economic aspects of the Somos acquisition transaction and consequently disclosing material information for the users of financial statements. The Company, therefore, recognized R\$1,575,195 as noncontrolling interests, which is equivalent to 69,853,431 shares valued at their quotation on B3 on October 11, 2018, the completion date of the acquisition of noncontrolling interests.

Said adjustments were made to the comparative balances as at December 31, 2018, pursuant to IAS 8/CPC 23 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Said adjustments are shown below:

	Preliminary allocation 10/11/2018	Revision of preliminary allocation	Measurement of noncontrolling interests at fair value	Final allocation
Net assets	(408,875)			(408,875)
Acquisition price	4,566,542			4,566,542
	4,157,667	-	-	4,157,667
Liabilities assumed	2,625,389	(24,759)	-	2,600,630
Retained portion of acquisition price	(450,000)			(450,000)
Portion of noncontrolling interests	-	-	1,575,195	1,575,195
	6,333,056	(24,759)	1,575,195	7,883,492
Goodwill allocation				
Goodwill	4,077,820	246,491	1,575,195	5,899,506
Trademark	1,224,975	443,690		1,668,665
Customer portfolio	77,487	28,065		105,552
Customer portfolio – Non-contractual	906,255	328,249		1,234,504
Inventory appreciation	46,519	16,850		63,369
Property, plant and equipment appreciation		8,884		8,884
Derecognition of acquiree's intangible assets				
Goodwill		(879,569)		(879,569)
Trademark		(372,562)		(372,562)
Customer portfolio		(239,597)		(239,597)
Deferred income tax and social contribution		394,740		394,740
	6,333,056	(24,759)	1,575,195	7,883,491

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

#### Consolidated:

	Consolidated		
	Original	Adjustment	Restated
Assets			
Current assets			
Inventories	370,657	16,850	387,507
<b>Total current assets</b>	<b>5,563,269</b>	<b>16,850</b>	<b>5,580,119</b>
Noncurrent assets			
Deferred income tax and social contribution	515,900	232,601	748,501
Investments	-		-
Property, plant and equipment	2,485,643	8,885	2,494,528
Intangible assets	19,911,110	1,045,755	20,956,865
<b>Total noncurrent assets</b>	<b>25,081,770</b>	<b>1,287,241</b>	<b>26,369,011</b>
<b>Total assets</b>	<b>30,645,039</b>	<b>1,304,091</b>	<b>31,949,130</b>
Liabilities and equity			
Current liabilities	2,565,498	-	2,565,498
Noncurrent liabilities			
Deferred income tax and social contribution	1,042,115	(162,138)	879,977
<b>Total liabilities</b>	<b>14,638,209</b>	<b>(162,138)</b>	<b>14,476,071</b>
Equity			
Noncontrolling interests	104,186	1,466,229	1,570,415
	<b>15,902,644</b>	<b>1,466,229</b>	<b>17,368,873</b>
<b>Liabilities and equity</b>	<b>30,645,039</b>	<b>1,304,091</b>	<b>31,949,130</b>

## 2.2. Adoption of new accounting standards

### IFRS 16 *Leases*

The new standard supersedes IAS 17 *Leases* and related interpretations, and introduces significant changes for lessees by requiring lessees to recognize the future payments liability and the right of use of the leased assets for basically all leases, including operating leases. Only certain short-term or low-value contracts are outside the scope of the new standard.

In this scenario, existing leases impact this financial information as follows:

- recognition of right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the minimum future lease payments;
- recognition of depreciation expenses of right-of-use assets and interest expenses on lease liabilities in the consolidated income statement; and
- segregation of the total cash amount paid in these transactions into principal (disclosed in financing activities) and interest (disclosed in operating activities) in the consolidated statement of cash flows.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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As permitted, for short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will elect to recognize the lease expenses on a straight-line basis in the statements of profit or loss, as permitted by IFRS 16. The Company will make use of the practical expedient available not to separate non-lease components in contracts that also contain a lease and instead recognize such components together as a single component within the scope of the new standard.

On the other hand, the recognition requirements for lessors remain practically unchanged, except in sublease cases. In these cases, the intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the main lease and no longer by reference to the underlying asset as was the case under IAS 17.

As transition method to the new standard, Management elected the modified retrospective approach, with the cumulative effect of its initial application recognized as adjustment to the opening balance of equity and without restatement of comparative periods. Accordingly, all balances relating to the year ended December 31, 2018 continue to be stated pursuant to the requirements of the accounting policies previously in place (IAS 17).

In the transition process, the Company elected not to use the practical expedient that allows not reassessing whether a contract is or contains a lease. Accordingly, the new definitions of lease in accordance with IFRS 16 were applied to all contracts in effect at the transition date. The change in the definition of lease refers primarily to the concept of control, where under IFRS 16 the assessment of whether a contract contains a lease should be based on the fact of whether or not a customer has the right to control the use of an identified asset over a period of time in exchange for consideration.

As such, the Company's management, with the assistance of specialists, identified the contracts (contract inventory) to determine whether or not a contract contained a lease pursuant to IFRS 16/CPC 06 (R2). This analysis identified impacts related mainly to lease transactions of properties from third parties and less representative amounts linked to other transactions where we identified the existence of leased assets either individually or in connection with service agreements.

In addition, the following practical expedients will be used on transition to the new lease accounting requirements:

- Apply a single discount rate to each lease portfolio with reasonably similar characteristics; As a result, Management obtained an incremental borrowing rate, measured at January 1, 2019, applicable to each portfolios of leased assets. Through this methodology, the Company obtained an weighted average rate of 9.67%;
- Those contracts for which the lease term ends within 12 months of the date of initial application of the standard were recognized;
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

# KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

## NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

As a result of the facts above, the Company recognized the following amounts in the opening balances of its consolidated balance sheet:

	12/31/2018	Opening adjustment	Consolidated 01/01/2019
	(Restated Note 2.1)		
<b>Current assets</b>			
Trade receivables	1,940,313	964	1,941,277
<b>Noncurrent assets</b>			
Trade receivables	694,283	7,655	701,938
Property, plant and equipment	2,494,528	2,976,634	5,471,162
Deferred taxes	748,501	89,313	837,814
Total assets	5,877,625	3,074,566	8,952,191
<b>Current liabilities</b>			
Leases payable	-	208,769	208,769
Deferred taxes	-	-	-
<b>Noncurrent liabilities</b>			
Leases payable	-	3,050,865	3,050,865
Deferred taxes	879,977	67	880,044
Total liabilities	879,977	3,259,701	4,139,678
<b>Equity</b>			
Retained earnings	5,287,505	(185,136)	5,102,369
Total equity	5,287,505	(185,136)	5,102,369

The balances of Leases Payable above refer to the “Future commitments”, as follows:

	IFRS16	Present value adjustr	Consolidated 06/30/2019
Up to one year	521,066	(296,746)	224,320
One year up to five years	2,299,480	(761,082)	1,538,398
Over five years	2,578,523	(1,079,694)	1,498,830
	5,399,069	(2,137,522)	3,261,547



## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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Additionally, the table below summarizes the accounting impacts of adopting this new accounting standard on the income statement for the six-month period ended June 30, 2019:

	<u>Consolidated</u>
	<u>30/06/2019</u>
	<u>(IFRS 16)</u>
<b>Statement of profit or loss for the year</b>	
Depreciation and amortization	(151,895)
Finance costs	(151,212)
Finance income	432
Other gains and losses	9,179
	<u>(293,496)</u>
Deferred income tax and social contribution	14,224
	<u>(279,272)</u>
Rentals paid in the period	256,560
Impact of the new policy on profit or loss	<u>(36,936)</u>

### 3. BUSINESS COMBINATIONS

#### **Faculdade Metropolitana**

On January 21, 2019, EDE completed the acquisition of 100% of the capital of Centro de Ensino Superior de Marabá Ltda. (“CEMAR”), Centro de Ensino Superior de Parauapebas Ltda. (“CEPAR”), and Centro de Ensino Superior de Paragominas Ltda. (“CESUPAR”), collectively “Faculdade Metropolitana”. The main purpose is to follow the expansion plan of the Company’s higher education segment.

The table below summarizes the main balance sheet groups, at the date of acquisition, to allow a better understanding of the financial information for the period ended June 30, 2019.

# KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

## NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES				
	CEMAR	CEPAR	CESUPAR	Faculdade Metropolitana
Acquisition date	21/01/2019	21/01/2019	21/01/2019	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	1,168	200	213	1,581
Trade receivables	1,170	723	412	2,305
Recoverable taxes	176	120	40	336
Other receivables	6	21	7	34
Related parties	-	1,000	-	1,000
Total current assets	2,520	2,064	672	5,256
NONCURRENT ASSETS				
Trade receivables	10	-	-	10
Guarantee against losses in tax, labor and civil contingencies	16,880	-	-	16,880
Escrow deposits	100	-	-	100
Property, plant and equipment	2,141	544	793	3,478
Total noncurrent assets	19,131	544	793	20,468
TOTAL ASSETS	21,651	2,608	1,465	25,724
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payables	181	56	85	322
Payroll and related taxes	787	181	118	1,086
Taxes in installments	1,000	-	-	1,000
Total current liabilities	1,968	237	203	2,408
NONCURRENT LIABILITIES				
Provision for civil, labor, and tax contingencies	16,880	-	-	16,880
Total noncurrent liabilities	16,880	-	-	16,880
TOTAL LIABILITIES	18,848	237	203	19,288
EQUITY	2,803	2,371	1,262	6,436
TOTAL LIABILITIES AND EQUITY	21,651	2,608	1,465	25,724
Net assets	(2,803)	(2,371)	(1,262)	(6,436)
Acquisition price	30,000	17,000	13,000	60,000
Present value adjustment	(2,195)	(1,244)	(951)	(4,390)
Excess acquisition price above the fair value preliminarily classified as goodwill	25,002	13,385	10,787	49,174

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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#### **Acquisitions made in 2018**

The goodwill arising on the acquisitions made during the second half of 2018 (Colégio Lato Sensu, Bacabal Mearim Sistemas de Ensino, Sociedade Educacional da Paraíba Ltda. and Somos Educação S.A.) was preliminarily allocated as follows. There were no material changes with regard to the amounts disclosed in the previous financial statements, as compared to the financial statements for the year ended December 31, 2018.

#### **Completion of the Public Tender Offer - Somos**

The Public Tender Offer was carried out on May 7, 2019. The results, after official confirmation by B3, indicate that Saber acquired 69,423,445 Somos common shares, equivalent to 26.48% of the latter's share capital, at R\$24.55 per share, of which R\$22.13 refer to the portion paid in cash (R\$21.37 adjusted using the SELIC rate from October 11, 2018 to the settlement date) and R\$2.42 refer to the withheld portion (R\$2.34 adjusted using the SELIC rate from October 11, 2018 to the settlement date of the Public Tender Offer, May 10, 2019) ("Offer Price").

After settlement, therefore, Saber became the direct and indirect holder of 261,698,903 Somos common shares, representing approximately 99.84% of its share capital.

Since the number of shares acquired by Saber in the tender offer exceeded the minimum amount necessary to cancel the publicly held company registration of Somos, which is 2/3 of the free float eligible for the tender offer, Somos took the necessary actions to cancel such registration.

As a result, on May 22, 2019, Somos reported to its shareholders and the market in general that on this date received Official Letter No. 164/2019/CVM/SEP/GEA-1, in which the CVM communicates the approval of the cancellation of Somos registration as issuer of category A securities, since all the applicable legal and regulatory provisions were complied.

Accordingly, as from this date, Somos is a private corporation and its shares are no longer listed on B3 S.A. – Brasil, Bolsa, Balcão or any other organized market for trading.

Finally, on June 11, 2019, Somos reported to its shareholders, as provided for by Article 4, Para 5, of Law 6404/76 and pursuant to the decision approved at the Extraordinary Shareholders' Meeting held on June 11, 2019, that it has paid the redemption of 378,807 of its free float, equivalent to approximately 0.16% of total issued shares, representing all the common shares that were still held by noncontrolling shareholders after the Public Tender Offer conducted by Saber Serviços Educacionais S.A. The total amount of up to R\$24.76 per share, corresponding to the price paid for each share in the Public Tender Offer, adjusted since the Public Tender Offer settlement using the SELIC rate (Central Bank's policy rate) on a pro rata basis until June 26, 2019, is broken down as follows: (i) a portion paid in cash of R\$22.32 per share ("Cash Portion"), and (ii) a withheld portion of the tender offer of R\$2.44 per share ("Escrow Deposit").

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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	<b>Consolidated</b>
Noncontrolling portion at fair value (i)	1,575,195
Portion withheld from noncontrolling shareholders (Escrow Deposit)	168,921
Gain in transaction between shareholders	(29,333)
<b>Amount paid in the Public Tender Offer</b>	<b>1,714,783</b>

- (i) Refers to the fair value measured based on the quotation of Somos Educação S.A. shares at the acquisition date, as shown below:

Total shares acquired	69,853,431
Fair value	22.55
	<b>1,575,195</b>

## **4. FINANCIAL RISK MANAGEMENT**

The Company's management assesses financial risk management at the Group level.

### **4.1. Financial risk factors**

The Company's activities are exposed to market, credit and liquidity financial risks.

The Company's management and the Board of Directors oversee together the management of these risks aligned with the capital management goals:

#### **a) Policy on the use of derivative financial instruments**

The Company does not have any derivative transactions.

#### **b) Market risk – interest rate-related cash flow 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 financing and debentures raised in the market and payables for acquisition of third parties in installments. The Company continuously monitors market interest rates to assess whether new transactions should be contracted to hedge against the volatility of interest rates.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

Contract interest rates are shown below:

	06/30/2019	12/31/2018	Consolidated Interest rate
Borrowings and financing			
Leases	936	55,116	IPCA
Debentures	8,310,838	7,519,865	100% CDI + juros de 0,75% a 2% aa
Debentures – SABER 1 <sup>st</sup> issue, 3 <sup>rd</sup> series	111,381	108,641	IPCA + 6,72% a.a.
Payables for acquisitions	172,102	177,753	CDI
Payables for acquisitions	121,082	117,000	IPCA
Payables for acquisitions	30,337	31,044	Outros
Total	<u>8,746,676</u>	<u>8,009,419</u>	

#### c) Credit risk

Without significant changes compared to the year ended December 31, 2018.

#### d) Liquidity risk

Consists of the possibility of the Company not having sufficient funds to honor its commitments in view of the different settlement terms of its assets and liabilities.

The Company raised debt in the form of debentures at market costs amounting to R\$5.5 billion, invested in Kroton's K-12 Education with the acquisition of Somos by subsidiary Saber in 2018, generating an increase of its financial indebtedness ratios. In addition to these borrowings, acquiree Somos had an existing gross debt balance of approximately R\$2 billion.

The Company's and its subsidiaries' cash flows are managed on a centralized basis by the Group's finance department, which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational requirements. The Group also continuously monitors the cash balance and the debt level of the companies and implements actions so that the companies receive capital contributions and/or access the capital market when required to keep within the existing credit limits. This forecast takes into consideration the Group's debt financing plans, compliance with covenants, and compliance with internal balance sheet ratio goals and external regulatory or legal requirements, if applicable.

Cash surpluses held by Group companies, above the balance required for working capital management, is also managed on a centralized basis by the Group. The treasury department invests cash surpluses in time deposits, short-term deposits, and securities by choosing instruments with appropriate maturities or sufficient liquidity to ensure that the Company has an adequate volume of funds for its operations.

The Company's main financial liabilities refer to borrowings, debentures, trade payables, and payables for acquisitions. The main purpose of such financial liabilities is to raise funds to finance the Company's operations.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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

#### Financial liabilities by maturity

	Consolidated		
	Less than 1 year	1-2 years	Over 2 years
As at June 30, 2019			Total
Trade payables	361,057	-	-
Trade payables - purchaser's risk	337,350	-	-
Borrowings and financing	494	442	-
Debentures	509,325	2,650,743	5,262,151
Payables - acquisitions	130,124	74,015	119,382
	<u>1,338,350</u>	<u>2,725,200</u>	<u>5,381,533</u>
			<u>9,445,083</u>

#### Financial liabilities by maturity - Budgeted

	Consolidated		
	Less than 1 year	1-2 years	Over 2 years
As at June 30, 2019			Total
Trade payables	361,057	-	-
Trade payables - purchaser's risk	337,350	-	-
Borrowings and financing	525	468	-
Debentures	541,642	2,818,933	5,596,037
Payables - acquisitions	140,534	79,936	128,933
	<u>1,381,108</u>	<u>2,899,337</u>	<u>5,724,970</u>
			<u>10,005,415</u>

The balances of the table above reflect the balances of principal repayable plus interest and inflation adjustment up to the last installment and thus do not reflect the balances stated and the related noted to the interim financial information for the period ended June 30, 2019.

## 4.2. Capital management

The main goals of the Company's capital management are to protect its ability to continue as a going concern, offer good returns to its shareholders and reliability to the other stakeholders, and maintain an optimal capital structure focused on reducing finance costs while maximizing shareholder return.

In order to maintain or adjust the capital structure, the Company may revise its dividend payment and capital return to shareholders policy, or even issue new shares or buyback shares.

As at June 30, 2019, the Company had an adequate capital structure to facilitate its growth strategy, either organically or through acquisitions. The investment decisions take into consideration the expected return potential.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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The financial leverage ratios are as follows:

	06/30/2019	Consolidated 12/31/2018 (Restated Note 2.1)
Borrowings and financing, debentures and payables for acquisitions	(8,746,676)	(8,401,393)
Cash and cash equivalents and securities – current and noncurrent	1,016,752	2,595,570
Net cash	(7,729,924)	(5,805,823)
Equity	16,050,647	17,473,060
Financial leverage ratio	48.16%	36.31%

#### 4.3. Sensitivity analysis

The table below shows the sensitivity analysis for financial instruments, describing the risks that may result in material losses for the Company, according to a Management assessment, using a most probable scenario for a twelve-month period and the following projected rates: CDI: 6.35% and IPCA: 3.37% per year. Additionally, two other scenarios are provided showing a 25% and 50% stress of the risk variable considered, respectively.

	Baseline exposure 06/30/2019	Risk	Probable scenario	Possible scenario -25%	Consolidated Remote scenario -50%
Short-term investments and securities	1,016,752	CDI increase	64,513	80,641	96,769
CDI-indexed debentures and payables	(8,482,942)	CDI increase	(538,243)	(672,803)	(807,364)
IPCA-indexed debentures and payables	(233,397)	IPCA increase	(7,865)	(9,832)	(11,798)
	<u>(7,699,587)</u>		<u>(481,595)</u>	<u>(601,994)</u>	<u>(722,393)</u>

Source: IPCA (Broad Consumer Price Index) in the Focus report issued by the Central Bank of Brazil (BACEN) and CDI based on the B3 S.A. benchmark rates, both available in the these entities' websites.

## 5. FINANCIAL INSTRUMENTS BY CATEGORY

The fair values of financial assets and liabilities were calculated based on available market information and valuation techniques appropriate for each situation. However, considerable judgment was required to interpret market inputs and then develop the most appropriate fair value estimates. Accordingly, estimates presented herein are not necessarily indicative of the amounts that could be realized in the market. The use of different market inputs and/or valuation techniques may have a material impact on the estimated fair value.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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	Parent		Consolidated	
	30/06/2019	31/12/2018	30/06/2019	31/12/2018
<b>Assets - amortized cost</b>				
Cash and cash equivalents	18,345	10,057	235,366	1,485,611
Trade receivables	-	20	3,065,544	2,634,596
Other receivables	144	179	203,671	209,062
	<u>18,489</u>	<u>10,256</u>	<u>3,504,581</u>	<u>4,329,269</u>
<b>Assets - fair value through profit or loss</b>				
Securities	-	-	781,386	1,109,959
	<u>-</u>	<u>-</u>	<u>781,386</u>	<u>1,109,959</u>
<b>Liabilities - amortized cost</b>				
Borrowings and financing	-	-	936	55,116
Debentures	807,488	-	8,422,219	7,628,506
Purchasers' trade payables	-	-	337,350	391,974
Trade and other payables, less legal obligations	407	580	728,402	899,858
	<u>807,895</u>	<u>580</u>	<u>9,488,907</u>	<u>8,975,454</u>

The Company's financial assets and liabilities as at June 30, 2019 are recognized in balance sheet accounts and at amounts consistent with those prevailing in the market.

## 6. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets may be evaluated by reference to external credit ratings (if any) or historical information on default rates for counterparties:

	Consolidated	
	30/06/2019	31/12/2018
Trade receivables (Note 11)		
Group 1 - higher education	4,615,794	3,739,177
Group 2 - K-12 education	368,513	558,522
	<u>4,984,307</u>	<u>4,297,699</u>

Group 1 trade receivables consist mainly of receivables from individual customers, linked to the provision of undergraduate services and debt negotiations. This group's risk is managed based on the aging of the corresponding receivables and the segregation of the students per type of product and profile, (for example, FIES students and PEP students). Group 2 trade receivables consist mainly of receivables from book distributors, Government (National Textbook Program, or PNLD), schools, franchisees, and individuals linked to the provision of K-12 education services. This group's risk is managed based on the aging of the corresponding receivables and the segregation into services provided and goods sold segments.



## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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	Consolidado	
	30/06/2019	31/12/2018
Cash and cash equivalents (Note 8)		
AAA (i)	157,370	1,138,346
AA	11,226	18,645
A+	42,295	293,148
AA-	-	13
Not applicable	24,475	35,459
	<u>235,366</u>	<u>1,485,611</u>
Securities (Note 9)		
AAA	40,169	66,980
AA	704	14,248
A+	725,434	969,974
Not applicable	15,079	58,757
	<u>781,386</u>	<u>1,109,959</u>

- (i) Since Santander Brasil is not rated by Fitch, the rating awarded by Standard & Poor's was used to rate the short-term investments held in this financial institution amounting to R\$148,976.

The changes in the balances' ratings between periods are attributed to changes in the ratings awarded by risk rating agency Fitch Ratings.

## 7. CASH AND CASH EQUIVALENTS

	Parent		Consolidated	
	30/06/2019	31/12/2018	30/06/2019	31/12/2018
<u>Cash</u>				
Checking account	-	90	2,386	3,076
	-	90	2,386	3,076
<u>Short-term investments</u>				
Fixed-income fund	-	-	35,804	33,442
Repurchase agreements	-	-	122,769	137,732
National Treasury Notes (NTNO) (i)	18,345	9,967	56,132	155,773
Bank certificates of deposit (CDBs)	-	-	18,275	1,155,588
	18,345	9,967	232,980	1,482,535
	<u>18,345</u>	<u>10,057</u>	<u>235,366</u>	<u>1,485,611</u>

- (i) Overnight National Treasury Notes and the Repurchase agreements are daily short-term investments with private banks backed by highly liquid government securities without risk of yield loss in the event of redemption.

The Company has highly liquid short-term investments, with insignificant risk of changes in value, a significant portion of which is made in exclusive funds. The average gross yield of short-term investments is 99.54% of CDI (interbank deposits rate) as at June 30, 2019 (99.89% of CDI as at December 31, 2018).

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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#### 8. SECURITIES

	Consolidado	
	30/06/2019	31/12/2018
National Treasury Bills (LTN)	15,078	547,202
Financial Bills (LF)	34,370	81,091
Financial Treasury Bills (LFT)	731,938	481,666
	<u>781,386</u>	<u>1,109,959</u>
Current	764,182	1,098,185
Noncurrent	17,204	11,774
	<u>781,386</u>	<u>1,109,959</u>

The average gross yield of securities is 99.54% of CDI as at June 30, 2019 (99.89% of CDI as at December 31, 2018).

#### 9. TRADE RECEIVABLES

##### a) Breakdown

	Consolidated	
	30/06/2019	31/12/2018
Higher education (i)	4,615,794	3,739,177
K-12 education (ii)	368,513	558,522
	<u>4,984,307</u>	<u>4,297,699</u>
Allowance for doubtful debts		
Higher education	(1,620,174)	(1,371,947)
K-12 education	(97,143)	(94,081)
	<u>(1,717,317)</u>	<u>(1,466,028)</u>
Trade receivables, net	3,266,990	2,831,671
Adjustment to present value (iii)	(201,446)	(197,075)
	<u>3,065,544</u>	<u>2,634,596</u>
Current	2,347,068	1,940,313
Noncurrent (iv)	718,476	694,283
	<u>3,065,544</u>	<u>2,634,596</u>

- (i) Consists of current or past-due monthly tuitions of paying students, Higher Education Student Loan Program (FIES) students and private payment in installments (PEP) students.
- (ii) Textbooks, support materials, sale of workbooks, franchises, and monthly tuitions.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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- (iii) The present value adjustment (PVA) is calculated on the revenue amounts recognized on a monthly basis and that mature in future periods, notably products used by the students benefiting from the PEP or PMT (Late Enrollment in Installments) products. The weighted average rate of 2.10% used to make the amount discount in the period, based on the rates determined in January-June 2019 for the CDI and IPCA difference accumulated in the past twelve months.
- (iv) The reversal of the PVA recognized in the revenue month can be made in two ways: a) due to the natural evolution of the contracts in time, i.e., it is reversed on a monthly basis prorated to the month with positive impact on profit or loss; and b) when there is a student dropout, which, under the signed contract, allows us to charge in advance the outstanding amount and in this case the PVA balance is fully reversed.
- (v) PEP and higher education tuition fee renegotiation receivables falling due after 365 days, net of present value adjustments.

Receivables increased due to the higher exposure of the Company's products in installments, such as PEP and PMT, where the payment is made only after the course is completed, coupled with the high volume of outstanding monthly tuitions related to the unstable economic scenario. Similarly, the allowance for doubtful debts linked to PEP and PMT products also increased because it is the Company's policy to provide for 50% of the recognized amount of revenue in installments, net of present value adjustments.

#### **b) Receivables aging list**

	Consolidated	
	30/06/2019	31/12/2018
Current/PEP	3,766,218	3,257,762
Past due		
Up to 30 days	250,435	196,351
31 to 60 days	180,191	152,668
61 to 90 days	157,000	9,729
91 to 180 days	254,714	131,870
181 to 365 days	375,749	549,319
Total past due	1,218,089	1,039,937
Allowance for doubtful debts	(1,717,317)	(1,466,028)
Present value adjustment	(201,446)	(197,075)
	<u>3,065,544</u>	<u>2,634,596</u>

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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#### **c) Allowance for doubtful debts and write-offs**

##### **Monthly tuitions**

The Company has monthly recognized an allowance for doubtful debts by analyzing monthly receivables recognized each month (over a twelve-month period) and the corresponding breakdown by day in arrears and evaluating the recovery performance. Under this methodology, a likelihood of the estimated loss is attributed to each default bracket taking into consideration current and prospective information on macroeconomic factors that affect the customers' ability to settle claims, such as unemployment rate.

##### **FIES**

The Company recognizes an allowance for doubtful debts for amounts under the FIES according to the likelihood of loss associated with the students included in the Program, taking into considerations the following assumptions:

- For contracts with guarantor, the Company recognized an allowance of 4.5% of this type of billed revenue, taking into account that the Company assumes only 15% of the exposure to the FIES credit risk and an estimated of 30% of default.
- For contracts covered by the Student Loan Guarantee Fund (FGEDUC), entered into by April 2014, the Company recognized an allowance of 0.9% of this type of billed revenue, taking into account that the Guarantee Fund is responsible for 80% of the exposure to the FIES credit risk (15%) and estimated 30% default.
- For contracts covered by the Student Loan Guarantee Fund (FGEDUC), entered into after April 2014, the Company recognized an allowance of 0.45% of this type of billed revenue, taking into account that the Guarantee Fund is responsible for 90% of the exposure to the FIES credit risk (15%) and estimated 30% default.

##### **PEP**

The Company recognized an allowance for doubtful debts relating for the receivables of the Special Private Payment in Installments (PEP), using a 50% percentage of the net revenue, which reflects a better estimate of future default management. This percentage takes into consideration: a) the expected credit losses for students with payments in installments, which is higher than the average of paying students; and b) the historic percentage of dropout students.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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#### **Variations in allowance for doubtful debts**

		Consolidated
	30/06/2019	31/12/2018
Opening balance	(1,466,028)	(994,730)
Addition arising from acquiree	(1,949)	(75,630)
Write-off against trade receivables	149,013	276,823
Recognition	(398,353)	(672,491)
Closing balance	<u>(1,717,317)</u>	<u>(1,466,028)</u>

When the default period exceeds 365 days the receivable is written off. Even for written-off receivables, the collection efforts continue and the related collection are already recognized directly in profit or loss when collected.

#### **10. INVENTORIES**

		Consolidated
	30/06/2019	31/12/2018
		(Reapresentado Nota 2.1)
Finished goods	353,813	362,784
Work in process	95,748	75,849
Raw materials	89,548	59,310
Imports in transit	2,927	-
Appreciation	31,902	36,698
Allowance for losses	<u>(146,419)</u>	<u>(147,134)</u>
	<u>427,519</u>	<u>387,507</u>

Variations in the allowance for inventory losses are as follows:

		Consolidated
	30/06/2019	31/12/2018
Opening balance	147,134	4,205
Addition arising from acquiree		143,945
Increase in the period	53,867	27,930
Reversal in the period	(40,286)	-
Inventory losses	<u>(14,296)</u>	<u>(28,946)</u>
Closing balance	<u>146,419</u>	<u>147,134</u>

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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#### 11. RECOVERABLE TAXES

	Parent		Consolidated	
	30/06/2019	31/12/2018	30/06/2019	31/12/2018
Income tax and social contribution (i)	6,058	3,913	256,739	211,990
PIS, COFINS and ISS (ii)	-	-	92,348	59,917
Social security tax (INSS)	-	-	31,330	28,955
Other recoverable taxes	-	-	9,862	20,136
	<u>6,058</u>	<u>3,913</u>	<u>390,279</u>	<u>320,998</u>
Current	6,058	3,913	383,832	315,169
Noncurrent	-	-	6,447	5,829
	<u>6,058</u>	<u>3,913</u>	<u>390,279</u>	<u>320,998</u>

- (i) Refers to recoverable amounts of withholding income tax (IRRF) on short-term investments and invoices, income tax, social contribution, which can be offset against any federal tax managed by the Federal Revenue Service of Brazil.
- (ii) Refers to PIS and COFINS credits claimed and retained on book sales and that can be offset against other federal taxes, as well as withholding taxes due to the issue of service invoices.

#### 12. RECEIVABLES FROM SALE OF SUBSIDIARIES

	Consolidated	
	06/30/2019	12/31/2018
UNIASSELVI	464,635	447,362
FAC	25,340	24,162
FAIR	14,177	13,511
NOVATEC	4,165	4,046
Colégio Anchieta	2,928	2,837
UNIRONDON	1,967	1,919
FAUSB	263	568
	<u>513,475</u>	<u>494,405</u>
Current	136,896	132,854.0
Noncurrent	<u>376,579</u>	<u>361,551</u>
	<u>513,475</u>	<u>494,405</u>

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

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The amounts are adjusted primarily using CDI and IPCA variance, depending on the related agreements.

	Installment due dates	06/30/2019	
		Total	%
Total current assets	2019	136,896	26.7
	2020	125,460	24.4
	2021	126,028	24.5
	2022	124,369	24.2
	2023	722	0.1
Total noncurrent assets		376,579	73.3
Total		513,475	100.0

### 13. OTHER RECEIVABLES

	Consolidated	
	30/06/2019	31/12/2018
Prepaid expenses (i)	51,440	31,346
Receivables from former owners of acquirees (ii)	79,045	97,293
INSS on severance pay (iii)	30,859	30,859
Other (iv)	42,327	49,564
Total	203,671	209,062
Current	137,009	150,937
Noncurrent	66,662	58,125
	203,671	209,062

- (i) Consisting mainly of: R\$13,711 in property tax (IPTU) expenses, R\$23,744 in marketing expenses, R\$1,015 in software license costs, and R\$11,599 in other expenses prepaid by SOMOS.
- (ii) Consisting mainly of: a) amounts receivable from Academia Paulista Anchieta Ltda. (APA) in the adjusted amount of R\$30,404 relating to several lawsuits, the main refer to: 1) service tax (ISS) in installments due to the City of São Paulo; and 2) R\$10,998 relating to a tax collection action, as a result of an arrangement with the City of São Bernardo do Campo. b) Subsidiary has a claim of R\$16,717 relating to contingencies for which sellers of the companies acquired are responsible. In aggregate the other subsidiaries recognize R\$31,924 in receivables arising mainly from taxes and burden of defeat fees paid guaranteed by the former owners.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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- (iii) Refers to several civil, labor, and tax lawsuits, including the one relating to ISS in installments under the Tax Relief Installment Program (PPI) of the City of São Paulo; R\$10,998 relating to the tax collection lawsuit filed with the 2<sup>nd</sup> Public Finance Court, relating to an educational arrangement entered into in the 90s by APA and the City of São Bernardo do Campo, concerning a debt originating from the lack of approval of the City's accounts by the Court of Auditors. Subsidiary Unime LF has R\$1,919 receivable from its former owners relating to the REFIS tax installment program. Subsidiary Somos has R\$16,717 relating to contingencies with a probable likelihood of loss for which the sellers of the companies acquired by Somos are liable. Under the sale agreement entered into by the former shareholders of the acquired companies and Somos, in certain circumstances these shareholders guarantee the reimbursement of potential payments collected from Somos. In aggregate the other subsidiaries recognize R\$30,005 in receivables arising mainly from taxes and burden of defeat fees paid guaranteed by the former owners.
- (iv) Consisting mainly of recoverable social security contribution (INSS) originating from favorable court rulings against the levy of INSS on severance pay.
- (v) Consisting mainly of: R\$2,477 in the remaining balance receivable from the sale of property located in São Paulo, R\$2,971 relating to the sale of a property located in Santo André, R\$5,179 relating to the sale of a property located in São Luiz, MA, and R\$9,456 in amounts receivable relating to the sublease of a property located in São Paulo, which was classified as finance lease as required by IFRS 16.

## 14. INVESTMENTS

### (a) Breakdown of investments in direct subsidiaries

	Parent	
	06/30/2019	12/31/2018
Editora e Distribuidora Educacional S.A. ("EDE")	6,020,696	5,948,898
Anhanguera Educacional Participações S.A. ("AESAPAR")	3,022,860	3,109,748
SB Sistemas	84	(16)
Saber Serviços Educacionais Ltda.	101,519	-
Subtotal	9,145,159	9,058,630
Goodwill, including allocated Anhanguera goodwill	7,442,578	7,480,775
Total	16,587,737	16,539,405



## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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#### (b) Information on the direct subsidiaries

						June 30, 2019
	Equity interest	Number of shares	Total assets	Total liabilities	Equity	Profit/loss for the period
EDE	100%	2,849,615,508	8,201,299	2,180,919	6,020,380	223,820
AESAPAR	74.46%	2,497,592,975	6,655,966	2,596,377	4,059,589	226,960
SB SISTEMAS	100%	102,000	145	60	85	-
SABER	7.58%	1,592,130,655	13,610,863	12,333,101	1,277,762	(135,133)
		<u>6,939,441,138</u>	<u>28,468,273</u>	<u>17,110,457</u>	<u>11,357,816</u>	<u>315,647</u>
						December 31, 2018
	Equity interest	Number of shares	Total assets	Total liabilities	Equity	Profit/loss for the period
EDE	100%	2,789,437,961	6,779,613	830,715	5,948,898	834,171
AESAPAR	74.46%	2,497,592,975	5,303,694	1,127,258	4,176,436	700,166
SB SISTEMAS	100%	2,000	71	87	(16)	(18)
		<u>5,287,032,936</u>	<u>12,083,378</u>	<u>1,958,060</u>	<u>10,125,318</u>	<u>1,534,319</u>

#### (c) Variations in investment in direct subsidiaries:

Investment	Parent					
	EDE	AESAPAR	SB Sistemas	Saber	Ágio	Total
Balance at 12/31/2018	5,948,898	3,109,748	(16)	-	7,480,775	16,539,405
Variation						
Amortization	-	-	-	-	(38,197)	(38,197)
Share of results of investees	223,820	168,995	-	(7,195)	-	385,620
Capital increase	178,600	-	100	-	-	178,700
Incorporation	(109,220)	-	-	109,220	-	-
Dividends	(130,532)	(174,953)	-	-	-	(305,485)
Initial adoption of IFRS 16 Leases	(98,043)	(81,374)	-	(12)	-	(179,429)
Reflex RSU (i)	12,954	444	-	-	-	13,398
Others	(5,781)	-	-	(494)	-	(6,275)
Balance at 06/30/2019	<u>6,020,696</u>	<u>3,022,860</u>	<u>84</u>	<u>101,519</u>	<u>7,442,578</u>	<u>16,587,737</u>

(i) The variations correspond to the restricted stock unit (RSU) made in subsidiaries.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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#### (d) Information on the indirect subsidiaries

					June 30, 2019
	Equity interest	Number of shares	Total assets	Total liabilities	Equity
					Profit/loss for the period
<b>Direct subsidiaries - EDE</b>					
Centro de Ensino Atenas Maranhense	99.99%	106,358,364	307,968	59,846	248,122
Faculdade Integradas de Sorriso (i)	99.99%	-	-	-	-
União de Faculdades do Amapá (i)	99.99%	-	-	-	-
Centro de Ensino Superior de Marabá Ltda. (ii)	99.99%	9,829,511	25,443	19,478	5,965
Centro de Ensino Superior de Parauapebas Ltda. (ii)	99.99%	4,675,159	9,247	4,509	4,738
Centro de Ensino Superior de Paragominas Ltda. (ii)	99.99%	974,207	5,565	3,158	2,407
Ome Serviços Educacionais	99.99%	173,974,196	139,738	77,245	62,493
Pax Editora e Distribuidora	99.99%	-	-	-	-
Projecta Educacional	99.99%	10,234,275	5,477	321	5,156
Anhanguera Educacional Participações S.A.	25.54%	2,497,592,975	6,655,966	2,596,377	4,059,589
Pitágoras Sistema de Ensino Sociedade	99.99%	384,011,229	1,096,075	395,086	700,989
União de Ensino Unopar	99.99%	103,250,210	243,206	113,120	130,086
Unic Educacional	99.99%	203,030,858	572,802	91,848	480,954
Iuni Educacional - Unime Salvador	99.99%	15,916,973	110,780	54,821	55,959
União Metropolitana para o Desenvolvimento da Educação e Cultura	-	-	-	-	-
Saber Serviços Educacionais S.A.	99.99%	1,592,130,655	13,610,863	12,333,101	1,277,762
<b>Direct subsidiaries - SABER</b>					
Núcleo Brasileiro De Estudos Avançados Ltda	100%	10,000	2,617	4,850	(2,233)
Colegio Manaura Latu Senu Ltda.	100%	3,261,353	119,964	261,114	(141,150)
Sanches Serviços De Educação Ltda	100%	580,000	1,630	1,990	(360)
Centro De Educação Do Norte Do Brasil	100%	100,001	9,623	16,406	(6,783)
Centro Educacional Leonardo Da Vinci S/S Ltda	100%	2,839,000	226,009	226,698	(689)
Da Vinci Servicos Educacionais Ltda	100%	1,870,000	6,743	5,795	948
Somos Educação S.A.	73%	869,778,973	3,953,879	3,598,964	354,915
<b>Direct subsidiaries - SOMOS</b>					
<b>AESAPAR indirect subsidiaries:</b>					
Anhanguera Educacional Ltda.	100%	49,163,929	166,204	3,412	162,792
Clínica Médica Anhanguera Ltda.	100%	100,000	434	21	413
Anhanguera Educacional Fundo de Investimento em Direitos Creditórios	100%	3,596,891	26,865	47	26,818
Instituto Excelência Ltda.	100%	17,935,579	3,779	214	3,565
Edufor serviços educacionais Ltda. – ME	100%	2,909,300	3,559	3,340	219
Sociedade Piauiense de ensino superior Ltda.	100%	16,613,750	40,117	42,515	(2,398)
Fateci Cursos Técnicos S/S	100%	4,427,000	3,424	1,719	1,705
Clauder Ciarlini Filho S/S.	100%	3,833,000	16,561	27,642	(11,081)
Sociedade Educacional da Paraíba Ltda.	100%	22,376,000	10,626	4,279	6,347
Bacabal Mearim Sistemas de Ensino Ltda.	100%	1,420,000	26,908	21,223	5,685

(i) Companies merged with and into subsidiary EDE on February 1, 2019 as part of the Company's corporate restructuring.

(ii) Companies acquired on January 21, 2019, as described in note 3.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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#### 15. PROPERTY, PLANT AND EQUIPMENT

	Consolidated							
	IT equipment	Furniture, equipment and fixtures	Library	Buildings and improvements	PP&E in progress	Land	Right of use (IFRS 16)	Total
Balance as at December 31, 2018 (restated)	129,214	448,820	144,050	1,566,915	97,834	107,695	-	2,494,528
IFRS 16 opening balances (i)	-	-	-	-	-	-	2,976,633	2,976,633
Balance at January 1, 2019	129,214	448,820	144,050	1,566,915	97,834	107,695	2,976,633	5,471,161
Additions	19,418	46,551	8,645	2,403	79,528	33,100	72,839	262,484
Addition due to business combination	286	2,447	591	154	-	-	-	3,478
Write-offs	(4,203)	(6,453)	(529)	(70,598)	(1,217)	(18,517)	-	(101,517)
Depreciation	(25,180)	(31,746)	(13,557)	(43,855)	-	-	(151,895)	(266,233)
Transfers	-	-	-	61,670	(82,005)	-	20,335	-
Balance as at June 30, 2019	119,535	459,619	139,200	1,516,689	94,140	122,278	2,917,912	5,369,373
Average annual depreciation rate	30%	11%	10%	4%	-	-	6%	

- (i) Balances relating to the Group's lease transactions, which are significantly concentrated in the lease of properties for its operating units and administrative buildings, which provide for monthly payments. In general, these contracts provide for lease periods ranging from 5 to 15 years, which may be extended under contractual renewal options and the Tenant's Act (Law 8245, of October 18, 1991). The Group assesses at the beginning of each lease if it is reasonably accurate that such extension options will be exercised and revisits the conclusion reached when a significant event or a change in circumstances within its control takes place.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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#### 16. INTANGIBLE ASSETS

	Consolidated					
	Software	Content production	Operation License	Goodwill and allocated intangible assets	Other intangible assets	Total
Balance as at December 31, 2018	556,241	184,182	11,969	19,032,397	126,321	19,911,110
Effects of the restatement (Note 2.1)	-	-	-	1,045,755	-	1,045,755
Balance as at December 31, 2018 (restated)	556,241	184,182	11,969	20,078,152	126,321	20,956,865
Additions	96,638	37,191	4,139	62,653	3,195	203,816
Write-offs	(134)	(1)	(1,600)	-	-	(1,735)
Amortization	(67,458)	(60,068)	(2,656)	(181,855)	(11,567)	(323,604)
Balance as at June 30, 2019	585,287	161,304	11,852	19,958,950	117,949	20,835,342
Average annual amortization rate	20%	38%	33%	7%	34%	-

#### a) Goodwill arising on the acquisition of subsidiaries and intangible assets allocated in business combination

Goodwill arising on the difference between the amount paid upon the acquisition of investments in subsidiaries and the fair value of assets and liabilities is classified in intangible assets, in the consolidated financial information.

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

	Consolidated	
	06/30/2019	12/31/2018
		(Restated Note 2.1)
Goodwill (i)	15,644,948	15,603,676
Trademark (ii)	2,668,180	2,724,709
Operation license and center partner chain (iii)	680,212	667,966
Customer portfolio (iv)	956,171	1,081,786
Non-compete agreement (iv)	9,439	15
	19,958,950	20,078,152

- (i) Refers to goodwill arising on acquisitions of subsidiaries, classified as arising on expected future earnings. Does not have a finite useful life and is subject to annual impairment tests.
- (ii) Intangible asset with useful life estimated between 19 and 30 years.
- (iii) Refers to the licenses to offer in-class and distance learning education and the partner chain of distance learning centers. Does not have a finite useful life and is subject to annual impairment tests.
- (iv) Intangible asset with useful life estimated between 3 and 14 years.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

## 17. BORROWINGS, FINANCING AND DEBENTURES

### (a) Breakdown of debentures, borrowings and financing

	Interest	Issuance	Maturity	Consolidated	
				06/30/2019	12/31/2018
2nd issue, 3rd series EDE debentures (ii)	CDI + 1,70% a.a.	02/26/2015	12/10/2019	21,337	42,687
1st issue, single series KROTON debentures	CDI + 0,65% a.a.	04/15/2019	04/15/2024	807,488	-
1st issue, 1st series SABER debentures (iv)	CDI + 0,75% a.a.	08/15/2018	08/15/2021	1,154,179	1,154,212
1st issue, 2nd series SABER debentures (iv)	CDI + 1,00% a.a.	08/15/2018	08/15/2023	4,358,357	4,359,991
1st issue, 3rd series SABER debentures (iv)	IPCA + 6,7234% a.a.	08/15/2018	08/15/2025	111,381	108,641
2nd issue, 1st and 2nd series SABER SOMOS debentures (iv)	CDI + 0,90% a.a. e CDI + 1,70% a.a.	08/15/2018	08/15/2020	818,062	817,335
3rd issue SABER SOMOS debentures (iv)	CDI + 1,15% a.a.	03/15/2018	09/15/2021	814,188	813,237
4th issue, single series SABER SCIPIONE debentures (iv)	CDI + 1,00% a.a.	10/25/2017	10/25/2020	112,342	108,300
1st issue SARAIVA SOMOS debentures (v)	CDI + 1,00% a.a.	08/27/2018	08/15/2021	224,887	224,103
Borrowings				934	55,116
Total				8,423,155	7,683,622
Borrowings and financing				494	4,671
Debtentures				509,325	522,846
Current liabilities				509,819	527,517
Borrowings and financing				442	50,445
Debtentures				7,912,894	7,105,660
Noncurrent liabilities				7,913,336	7,156,105
				8,423,155	7,683,622

The debentures, issued as book-entry, registered nonconvertible debentures, without the issue of certificates or the possibility of being renegotiated, have the following features:

Company	Issue	Series	Number	Part Value	Issue Amount	Principal repayment	Consolidated
							Interest payment
EDE	2 <sup>nd</sup>	3 <sup>rd</sup>	8,500	10	85,000	Semiannual (Jun & Dec)	Semiannual (Jun & Dec))
KROTON	1 <sup>st</sup>	Single	80,000	10	800,000	On maturity	Semiannual (April & Oct)
SABER	1 <sup>st</sup>	1 <sup>st</sup>	112,966	10	1,129,660	Annual	Semiannual (Feb & Aug)
SABER	1 <sup>st</sup>	2 <sup>nd</sup>	426,434	10	4,264,340	Annual	Semiannual (Feb & Aug)
SABER	1 <sup>st</sup>	3 <sup>rd</sup>	10,600	10	106,000	Annual	Semiannual (Feb & Aug)
SABER SOMOS	2 <sup>nd</sup>	1 <sup>st</sup>	600,000	1	600,000	Annual	Semiannual (Feb & Aug)
SABER SOMOS	2 <sup>nd</sup>	2 <sup>nd</sup>	200,000	1	200,000	Annual	Semiannual (Feb & Aug)
SABER SOMOS	3 <sup>rd</sup>	Single	800,000	1	800,000	On maturity	Semiannual (Mar e Set)
SABER SCIPIONE	4 <sup>th</sup>	Single	100,000	1	100,000	On maturity	On maturity
SARAIVA SOMOS	1 <sup>st</sup>	Single	2,200	100	220,000	On maturity	Semiannual (Feb & Aug)

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

#### **(b) Variations in debentures, borrowings and financing**

	Consolidated	
	06/30/2019	12/31/2018
Opening balance	7,683,622	303,881
Addition due to business combination	-	2,150,639
Increase – principal	800,000	5,294,921
Increase – issue costs	(2,214)	(35,596)
Transfer of the IFRS adoption balance	(53,949)	-
Accrued interest	278,926	214,706
Cost allocation	5,578	3,984
Interest payment	(267,324)	(24,923)
Principal repayment	(21,484)	(223,990)
Closing balance	8,423,155	7,683,622

- (i) On January 15, 2019, the Company held its first issue of simple debentures, in a single series. 80,000 debentures with face value of ten thousand Brazilian reais (R\$10,000) were subscribed, totaling R\$800,000. The debentures were issued as registered, book-entry, nonconvertible debentures, without the issue of certificates. Debentures do not contain a renegotiation clause. The debentures have a five-year effective period, with final maturity on April 15, 2024. Principal will be repaid in a lump sum and interest due, calculated up to the due dates, are paid semiannually (April and October).

The debentures issued by subsidiary EDE include covenants that require the compliance with financial ratios calculated based on the financial statements of the Company as issue guarantor. The calculations are required from 2012 to 2019, the final maturity date.

The 1<sup>st</sup> issue financial ratios, which are calculated semiannually, are as follows:

- (i) Net debt-to-adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). This ratio cannot exceed 3.5.
- (ii) Adjusted EBITDA-to-finance income (cost). This ratio cannot be lower than 1.2.

The 2<sup>nd</sup> issue financial ratio, which is calculated annually, is as follows:

- (i) Net debt-to-adjusted EBITDA. This ratio cannot exceed 3.

The debentures issued by subsidiary SABER and KROTON also include covenants that require the compliance with financial ratios calculated on a quarterly basis over the issue period, based on the consolidated interim financial information of the Company as issue guarantor. The calculation period comprises the twelve months immediately prior to the end of each quarter to calculate the net debt-to-adjusted EBITDA ratio, and the resulting ratio cannot exceed 3.00.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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Adjusted EBTIDA is defined, based on the Guarantor's consolidated interim financial information (ITR) or consolidated financial statements, as applicable, the earnings for the twelve (12) months prior to the calculation date, before income tax and social contribution, depreciation and amortization, finance income (costs), and gains or losses from nonrecurring items, plus operating finance income.

As at June 30, 2019, all issues were compliant with the corresponding financial and nonfinancial ratios.

#### **(c) Balance of debentures, borrowings and financing per maturity**

	Installment due dates	Consolidated	
		06/30/2019	
		Total	%
Total current liabilities	2019	509,819	6.1
		509,819	6.1
Total	2020	408,579	4.9
	2021	2,242,604	26.6
	2022	3,027,347	35.9
	2023	2,129,073	25.3
	2024	-	0.0
	2025	105,733	1.3
	2026	-	0.0
	2024 onwards	-	0.0
Total noncurrent liabilities		7,913,336	93.9
		8,423,155	100.0

## **18. TRADE PAYABLES – PURCHASER'S RISK**

Some domestic suppliers have the option of assigning Company receivables, without recourse, to prime financial institutions. Using these transactions, suppliers are able to anticipate their receivables with low financial costs, since the financial institutions take into consideration the Company's credit risk.

As at June 30, 2019, the balance of trade payables - purchaser's risk was R\$337,350 (R\$391,974 as at December 31, 2018), the weighted average discount rate of the assignment transactions conducted by our suppliers with financial institutions was 0.67% per month (the weighted average discount rate as at December 31, 2018 was 0.68% per month), and the maximum payment deadline was 360 days. The balance is initially known net of adjustments to present value, which are subsequently recognized as finance costs.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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**19. LEASES PAYABLE**

	<u>Consolidated</u>
	<u>06/30/2019</u>
Opening balance	-
IFRS 16 opening balance	3,259,634
Additions	107,261
Accrued interest	-
Present value adjustment	151,212
Principal repayment	(256,560)
Transfer of the IFRS adoption balance	-
Closing balance	<u><u>3,261,547</u></u>

- (i) The present value adjustment relating to the lease contracts is individually calculated per contract and applied to the useful life of the contract, taking into consideration its maturity date. The rate is calculated at our capital cost less the estimated impact of the guarantee on the rate.

In addition to the amounts disclosed above, some leases of properties where the Company and its subsidiaries are the lessees are subject to variable lease payments linked to the performance obtained from the use of the leased assets and, therefore, are not included in the carrying amount measurement.

As permitted, for short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will elect to recognize the lease expenses on a straight-line basis in the statements of profit or loss, and are not included in lease liabilities either.

Fixed and variable rentals and rentals related to short-term and low-value contracts for the period ended June 30, 2019 were as follows:

	<u>Consolidated</u>
	<u>06/30/2019</u>
Fixed payments	256,560
Variable payments	6,277
Payments related to short-term and low-value contracts	13,097
Total paid	<u><u>275,934</u></u>

The Group's lease contracts do not required compliance with financial ratios (covenants).



## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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#### 20. PAYROLL AND RELATED TAXES

	Parent		Consolidated	
	06/30/2019	12/31/2018	06/30/2019	12/31/2018
Payroll payable	-	-	112,531	94,686
INSS payable	-	-	45,252	61,819
Severance pay fund (FGTS) payable	-	-	11,838	18,363
Withholding income tax (IRRF) payable	-	-	29,211	39,215
Accrued vacation pay and 13th salary	-	-	186,127	109,254
Payroll taxes on accruals	-	-	38,098	17,991
Accrued profit sharing	-	2,970	47,219	141,193
Other	-	-	29,335	25,730
	-	2,970	499,611	508,251

#### 21. PAYABLES FOR ACQUISITIONS

	Consolidated	
	06/30/2019	12/31/2018
Colégio Lato Sensu	68,408	66,096
Colégio Leonardo da Vinci	67,909	75,295
Metropolitana	36,873	-
Uniacb	29,348	28,657
Imóvel Betim	21,308	48,977
Colégio SANTI	19,227	18,539
ICF	14,168	13,482
Livraria Livro Fácil	11,255	10,594
Fateci	8,477	8,249
IECAC (Sigma Águas Claras) - SOMOS	8,018	13,406
Grupo Visão	7,512	10,942
Febac	7,405	7,082
Iesville Educar / Intesc	5,562	5,397
Other	18,051	19,081
Total	323,521	325,797
Current	130,124	132,440
Noncurrent	193,397	193,357
	323,521	325,797

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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#### Variations in payables for acquisitions

	Consolidated	
	06/30/2019	12/31/2018
Opening balance	325,797	122,786
Addition due to business combination	-	69,999
Addition	60,294	4,911,900
Interest adjustment	16,112	10,778
Write-offs/nettings	-	(8,485)
Present value adjustment	(2,082)	(8,949)
Repayments	(76,600)	(4,772,232)
Closing balance	323,521	325,797

The amounts are adjusted primarily using CDI and IPCA variance, depending on the related agreements.

#### Due dates of payables for acquisitions

	Installment due dates	06/30/2019	
		Total	%
Total current liabilities	2019	130,124	40.2
		130,124	40.2
	2020	28,376	8.8
	2021	45,639	14.1
	2022	51,701	16.0
	2023	56,048	17.3
	2024 em diante	11,633	3.6
Total noncurrent liabilities		193,397	59.8
Total		323,521	100.0

## **22. PROVISION FOR TAX, LABOR AND CIVIL CONTINGENCIES AND ESCROW DEPOSITS**

The Company's management, based on the opinion of its legal counsel, classifies the likelihood of loss in court and administrative proceedings filed against the Company.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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#### **22.1. Proceedings with a probable likelihood of loss**

	Parent		Consolidated	
	06/30/2019	12/31/2018	06/30/2019	12/31/2018
<b>Labor proceedings (22.1(i))</b>	2,287	5,941	164,401	151,452
<b>Tax proceedings (22.1(ii))</b>	42,375	50,842	147,114	172,291
<b>Civil proceedings (22.1(iii))</b>	1,389	7,206	72,516	99,190
<b>Total materialized contingencies</b>	46,051	63,989	384,031	422,933

##### **(i) Labor proceedings**

As at June 30, 2019, the most significant labor lawsuits classified as probable losses to which the Company and its subsidiaries were parties, part of which are the responsibility of former sponsors/owners of the acquired entities and refer to events that occurred prior to the acquisition of the related entity by the Company, are as follows:

- (a) Three labor lawsuits claiming the recognition of an employment relationship of a preparatory course teacher and the payment of all related benefits (vacation pay + 1/3 bonus, 13th salary, FGTS), overtime, undue decrease of class hourly fee, nightshift premium, severance pay, fine provided for by Articles 477 and 467 of the Brazilian Labor Code (CLT), pain and suffering due to violation of rights and image, payment for replay of recorded classes in online sales, fine for early termination, indirect termination of employment contract, registration in work papers, and lawyers' fees, totaling R\$11,617;
- (b) Class action filed by the ABC labor union, file in 2011, consisting of several claims relating to the compliance with the teachers collective labor agreement, such as: weekly paid rest difference on nightshift premium, five-year salary rises, hourly fee, and distance learning classes (EAD), teacher salary makeup (five-year salary rise, hourly fee, nightshift premium), entry-level teacher salary gap, meal ticket, fine for noncompliance with regulatory clause on entry-level teacher salary gap, and lawyers' fees, totaling R\$8,517;
- (c) Class action filed by the Rio Grande do Sul teachers' union, that involves several claims relating to teachers' orientation of graduation dissertations, amounting to R\$2,800; and
- (d) The Company is also a party to 1,357 labor lawsuits, with average individual amounts of R\$74, of which 385 lawsuits, totaling approximately R\$10,757, that refer to claims by outsourced workers hired by labor outsourcing companies, attributing joint and several liability to the Company. In general, the labor lawsuits contain sundry claims.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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#### **(ii) Tax lawsuits**

As at June 30, 2019, the most significant tax lawsuits classified as probable losses to which the Company and its subsidiaries were parties, almost all of which refer to contingencies that are the responsibility of former sponsors/owners of the acquired entities and refer to events that occurred during the previous management, prior to the acquisition of the related entity by the Company, are as follows:

- (a) Tax collection lawsuits filed by the City of São Paulo charging 2007-2011 Service Tax (ISSQN), for which the former sponsors of Academia Paulista Anchieta, a company acquired by Anhanguera in September 2011, are fully liable, amounting to R\$102,510. The Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome;
- (b) Tax collection lawsuit collecting contributions to the severance pay fund (FGTS) for 2001-2003, based on the alleged violation of tax installment agreement No. 2004005284, amounting to R\$1,488, for which the former sponsors are fully liable. The Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome; and
- (c) The Company is also a party to 46 tax lawsuits, with individual amounts lower than the claims described above that on average amount to R\$944. The claims involve different types of tax credits.

#### **(iii) Civil proceedings**

As at June 30, 2019, the most significant civil lawsuits classified as probable losses to which the Company and its subsidiaries were parties, part of which are the responsibility of former sponsors/owners of the acquired entities and refer to events that occurred prior to the acquisition of the related entity by the Company, are as follows:

- (a) The main lawsuit is a Collection Action, amounting to R\$9,428, for which the former sponsors of Academia Paulista Anchieta are fully liable, where the claimant alleges damages resulting from irregular construction works and the fact that the property was returned without usage conditions. The Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome;
- (b) Refers to an action seeking specific performance coupled with a compensation claim, where the claimant, former partner of Anhanguera, alleges that the company is not fully complying with the business partnership agreement entered into by the parties, the purpose of which is the satellite broadcast of preparatory courses for civil servant tests. Request the court to declare that AESA has not complied with the contractual obligations, including the encryption of the satellite signal amounting to R\$8,207; and

# KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

## NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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- (c) The Company is also a party to 5,634 civil lawsuits, with individual amounts lower than the claims described above that on average amount to R\$10, including 118 cases for which the former sponsors are fully or partially liable. The claims involve mostly consumer complaints.

The table below shows the variations in contingencies in the period ended June 30, 2019.

				Parent
	Tax	Civil	Labor	Total
Balance as at 12/31/2018	50,842	7,206	5,941	63,989
Reversals (ii)	(8,467)	(5,629)	(3,628)	(17,724)
Total impact on profit or loss	(8,467)	(5,629)	(3,628)	(17,724)
Former sponsor lawsuits	-	(187)	(27)	(214)
Total payments	-	(187)	(27)	(214)
Balance as at 06/30/2019	42,375	1,390	2,286	46,051

- (i) The main reversals refer to the end of the statute of limitations of tax lawsuits

				Consolidated
	Tax	Civil	Labor	Total
Balance as at 12/31/2018	172,291	99,190	151,452	422,933
Balance prior to reclassification	(7,003)	(14,520)	21,523	-
Additions (i)	245	60,522	52,765	113,532
Reversals (ii)	(18,281)	(14,271)	(33,213)	(65,765)
Total impact on profit or loss	(25,039)	31,731	41,075	47,767
Former sponsor lawsuits	(364)	(7,850)	6,427	(1,787)
Payments	226	(50,555)	(34,553)	(84,882)
Total payments	(138)	(58,405)	(28,126)	(86,669)
Balance from acquirees	-	-	-	-
Balance as at 06/30/2019	147,114	72,516	164,401	384,031

- (i) The main additions are listed below:

- (a) Civil – Addition of 8,207 sundry civil lawsuits totaling R\$49,923, with immaterial individual amounts. The most significant amount added was approximately R\$900; and
- (b) Labor – Addition of 991 sundry labor lawsuits totaling R\$48,067, with immaterial individual amounts. The most significant amount added was approximately R\$1,357;
- (ii) The reversals made in the first half of 2019 refer to changes that had an impact on the Company's profit for the quarter, the main ones being:

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- (a) Tax: the main reversals were: in subsidiary Anhanguera Educacional Ltda., R\$1,198 was reversed due to the partially favorable outcome in the lawsuit collecting ISSQN; subsidiary Anhanguera Educacional Ltda. in São Paulo reversed R\$1,213 and there were other sundry reversals by the Company totaling R\$15,871;
- (b) Civil: the main reversals were: in subsidiary Anhanguera Educacional in São Gonçalo, RJ, R\$220 was reversed due to the partially favorable outcome in the lawsuit challenging the undue collection of administrative service fees; subsidiary Editora e Distribuidora Educacional S/A in Gurupi, TO reversed R\$206, and there were other sundry reversals by the Company totaling R\$13,780;
- (c) Labor: the main reversals were: in subsidiary Anhanguera Educacional Participações S/A on Dourados, MS, R\$1,368 was reversed due to the favorable outcome in a labor lawsuit claiming the payment of a general salary gap; subsidiary Anhanguera Educacional de São Bernardo do Campo, SP reversed R\$839, and there were other sundry reversals by the Company totaling R\$27,549.

#### **22.2. Proceedings with a probable likelihood of loss**

			Consolidated
	06/30/2019	12/31/2018	Number at 06/30/2019
Tax	562,672	487,346	189
Civil	238,133	384,549	17,524
Labor	89,103	93,743	1,527
Total	889,908	965,638	19,240

As at June 30, 2019, the Company and its parent companies were parties to 19,240 court/administrative proceedings classified by management with a possible likelihood of loss based on the opinion of its legal counsel, including 446 proceedings for which the former sponsors are fully or partially liable, the main ones being:

##### **(i) Tax:**

- (a) Tax assessment notice issued by the Federal Revenue Service of Brazil against the Company after a tax audit for the nonpayment of taxes on the stock options granted by the Company in January 2014-October 2017, amounting to R\$131,311;
- (b) Tax lawsuits filed by the Federal Government claiming the payment of a tax debt consisting of unpaid social security contributions registered as enforceable debt during the period when subsidiary IUNI was owned by its former sponsor and was entitled to tax immunity as a nonprofit philanthropic entity. The tax lawsuits covering this issue total R\$164,800. In the event of an unfavorable outcome, the former sponsor is partially liable for this contingency, up to approximately R\$67,000. Any sentence exceeding this amount will be paid by the Company; and

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- (c) Tax assessment notice issued by the Federal Revenue Service of Brazil against subsidiary Editora e Distribuidora Educacional (EDE) to collect social security contributions on the amount paid by the Company to eligible employees in calendar years 2013-2016. The assessed principal and charges (fine and arrears interest) total R\$71,408. The Company is liable for this tax assessment.

**(ii) Civil:**

- (a) Class action amounting to R\$12,000, filed by the Paraná State Prosecutor to repeal Municipal Laws 2463/201.003 and 2553/2005 of Arapongas, State of Paraná, that ceded the use of a plot of land and a building for UNOPAR to operate (Bandeirantes Campus) without a bidding process. The former sponsor of UNOPAR is liable for any losses and the Company is contractually entitled to compensation in the event of an unfavorable outcome; and
- (b) Action amounting to R\$7,964, to nullify a Contractual Amendment coupled with the collection of transfer differences and compensation for damages (property damages and loss of profits), filed by a Partner Center against UNOPAR due to alleged errors in inaccuracies in the transferred payments, and pressure to reduce the transfer percentage from 4% to 2%, for which Kroton is liable.

**(iii) Labor:**

- (a) Tax lawsuit claiming the recognition of the employment relationship of a preparatory course teacher and the payment of all related benefits (vacation pay + 1/3 bonus, 13<sup>th</sup> salary, FGTS), overtime, nightshift premium, severance pay, registration in work papers, and lawyers' fees. The Company is liable for this lawsuit, which totals R\$7,000; and
- (b) Tax lawsuit claiming the payment of overtime, nightshift premium, premium for holding two positions, compensation for pain and suffering, scholarships, and lawyers' fees. The Company is fully liable for this lawsuit, which totals R\$2,000.

### **22.3. Escrow deposits**

Breakdown of escrow deposits

	Consolidated	
	06/30/2019	12/31/2018
Tax	12,361	8,838
Civil	18,319	12,063
Labor	80,820	81,755
Total	111,500	102,656

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### **23. PROVISION FOR LIABILITIES ASSUMED IN BUSINESS COMBINATIONS**

As required by CPC 15 *Business Combinations*, the Company, based on the reports of its legal counsel and financial advisors, recognized in liabilities a provision amounting to R\$3,121,860 relating to potential noncompliance of past practices used by entities acquired by the Company with labor, civil, and tax laws and regulations during the period they were owned by the acquirees' sellers.

The Company has contractual guarantees provided by the acquirees' sellers in case it incurs any contingency that can be attributed to such sellers. Especially as regards the acquisition of Somos, there is an escrow account amounting to R\$624,566, held as guarantee for contingencies for which the sellers of Somos are objectively liable.

The Company recognized in accounting the potential obligation resulting from past events whose fair value can be reasonably measured, even if the materialization of contingencies depends on certain future events to occur.

In addition, Management is preparing a review of all procedures whose responsibility can be attributed to former owners. As referred to above, the provision was estimated based on reports issued by outside advisors and based on interviews and qualitative information, and, therefore, may be revised.

The balance of the liabilities assumed in business combinations with acquirees is as follows:

				Consolidated
	Tax	Civil	Labor	Total
CELV / DA VINCI	139,437	1,889	111,543	252,869
FATECI / CLAUDER	20,680	17,687	1,702	40,069
ICF	19,874	14,429	12,450	46,753
FEBAC	18,594	7,297	5,805	31,696
SOMOS	1,741,687	158,282	700,661	2,600,629
LATO SENSU	-	227,394	13,614	241,008
SEPA	-	24	-	24
Balance as at 12/31/2018	1,940,272	427,002	845,775	3,213,048
CEMAR addition	16,880	-	-	16,880
Reversals	(17,837)	(14,569)	(75,662)	(108,068)
Balance as at 06/30/2019	1,939,315	412,433	770,113	3,121,860

The main Company court/administrative proceedings arising from acquisitions made in 2018, classified by management with a possible likelihood of loss based on the opinion of its legal counsel, are as follows:

- (a) Tax - tax assessment notice issued by the City of Vitória do to the nonpayment of ISSQN amounting to R\$33,951. The former sponsor is liable for this proceeding and the Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome;



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- (b) Tax - tax assessment notice collecting IRPJ and CSLL, plus aggravated fine of 150% due to the disallowance of amortized goodwill and nondeductible expenses, plus one-off fine (for the alleged underpayment of estimated taxes), for calendar years 2011-2014. The tax assessment notice, amounting to R\$392,626, was issued against Somos Sistemas de Ensino S.A., and includes as jointly and severally liable the companies Somos Educação S.A. and Ativic S.A. (linked to the Abril Group), pursuant to Article 124, I, of the National Tax Code. The Company is liable for this proceeding;
- (c) Tax - tax assessment notice collecting alleged corporate income tax debts and related increase in other amounts (taxes and revenue, social contribution, and one-off fine) for the years 2000, 2001 and 2002. This tax assessment notice referred to seven infractions and currently only the issue involving goodwill, amounting to R\$89,371, is still pending. The Company is liable for this proceeding;
- (d) Tax - tax assessment notice issued by the Federal Service for the nonpayment of corporate income tax (IRPJ) and social contribution on net income (CSLL), as well as the imposition of aggravated automatic fine of 150% and one-off fine on monthly estimated IRPJ/CSLL, regarding calendar years 2013-2015. The tax assessment notice was issued against Central de Produções GWUP S.A. and its subsidiary Somos, as jointly and severally liable. The IRPJ and CSLL are being collected due to the disallowance of finance costs, considered nondeductible by the tax auditors, and the disallowance of goodwill. As a result of the adjustments made by the tax auditors, the tax authority also imposed a one-off fine for the alleged nonpayment of monthly estimated IRPJ and CSLL, amounting to R\$117,627. The former sponsor is liable for this proceeding and the Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome;
- (e) Tax – Based on the history and risk analyses of tax assessments issued due to the utilization of goodwill arising on acquisitions made SOMOS and the corresponding recognition of tax claim by the tax authority, we took into consideration a potential obligation resulting from past events of R\$747,838 and other tax procedures that might be challenged that total R\$152,876.
- (f) Civil – lawsuit claiming compensation of R\$10,831, filed by a third party against Editora Ática S.A. that alleges it was the exclusive distributor of Ática books in the states Espírito Santo and Bahia. The Company is liable for this proceeding in the event of an unfavorable outcome.
- (g) Labor - Based on the history and analyses of risks resulting from the noncompliance of past labor practices with labor laws and regulations, the main potential provision for obligations resulting from past events concerns the payments made to service providers under Self-employed Worker Receipts (RPAs) and corporate invoices, amounting to R\$207,508, and other sundry cases of noncompliance with labor laws and regulations totaling R\$392,003.

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- (h) Civil - – Based on the history and risk analyses, the Company recognized a potential obligation resulting from past events, contractual fines on the early contract terminations, particularly property lease contracts, which total R\$41,702, other sundry cases of noncompliance with civil laws and regulations totaling R\$77,249.

#### **Guarantees of provision for civil, labor, and tax contingencies**

The table below shows the breakdown of provided for court/administrative proceedings, covered by a liability contractually assigned to the former sponsor:

	Consolidated			
	Tax	Civil	Labor	Total
Balance as at 12/31/2018	724,882	112,926	95,411	933,219
Addition	168,927	435	5,815	175,177
Addition due to business combination	16,880	-	-	16,880
Reversals	(607)	(8,350)	(9,901)	(18,858)
Balance as at 06/30/2019	910,082	105,011	91,325	1,106,418

The guarantees recognized as a result of the acquisitions made, as a contra entry to the contingencies disclosed in note 22.3, are contractually provided for and consist of: a) retention of the rentals of properties leased by Company subsidiaries; b) retention of part of the acquisition price; and c) mortgage on the property owned by the sellers. The amounts recognized as provision for contingencies and their contra entry in the form of a guarantee from sellers representing the amounts determined to date, based on the information available in the study prepared by the Company's outside advisors and which might be revised within up to one year from the date of acquisition, as prescribed by CPC 15 *Business Combinations*.

## **24. CURRENT AND DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION**

### **a) Income tax and social contribution in profit or loss**

Income tax and social contribution differ from the hypothetical amount that would be obtained with the use of the statutory income tax and social contribution tax rates levied on the profit of the consolidated entities, as follows:

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	Parent				Consolidated			
	04/01 to 06/30/2019	06/30/2019	04/01 to 06/30/2018	06/30/2018	04/01 to 06/30/2019	06/30/2019	04/01 to 06/30/2018	06/30/2018
Profit before income tax and social contribution for the	138,137	370,951	460,346	931,039	58,940	315,426	465,371	950,202
Combined income tax and social contribution rate - %	34%	34%	34%	34%	34%	34%	34%	34%
IRPJ and CSLL at statutory tax rates	(46,967)	(126,123)	(156,518)	(316,553)	(20,040)	(107,245)	(158,226)	(323,069)
Share of profit (loss) of investees	52,264	131,111	166,650	308,520	(398)	(202)	-	-
Tax incentive in subsidiaries subject to ProUni benefit	-	-	-	-	84,031	159,682	147,680	281,142
Add-backs (deductions), net (i)	15,575	21,305	-	19,743	35,530	43,203	13,648	35,580
Deferred IRPJ and CSLL not recognized on	(13,967)	(13,967)	(3,138)	-	(14,247)	(18,567)	50	(4,410)
Derecognition of IRPJ and CSLL on goodwill	-	-	-	-	-	-	(2,478)	-
Other changes in income tax and social contribution	(109)	(102)	7	13	(3,978)	(2,310)	1,302	3,317
Total IRPJ and CSLL	6,796	12,223	7,001	11,723	80,898	74,561	1,976	(7,440)
Current IRPJ and CSLL in profit or loss	685	-	890	(500)	4,851	(48,389)	(21,705)	(42,086)
Deferred IRPJ and CSLL in profit or loss	6,111	12,223	6,111	12,223	76,047	122,950	23,681	34,646
	6,796	12,223	7,001	11,723	80,898	74,561	1,976	(7,440)

- (i) The main add-backs and deductions are: provisions for tax, labor and civil contingencies and employee profit sharing.

#### b) Deferred income tax and social contribution

Variations in deferred income tax and social contribution assets and liabilities, are recognized as follows:

Deferred income tax and social contribution – impact on profit or loss

	Impact on profit or loss		Parent
	12/31/2018	IFRS 16 adjustments	06/30/2019
<u>In liabilities</u>			
Goodwill on business combinations	(669,873)	-	12,224
Noncurrent liabilities	(669,873)	-	12,224

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	Impact on profit or loss		Consolidated
	12/31/2018	IFRS 16 adjustments	Impact on profit or loss
	(Restated Note 2.1)		06/30/2019
<u>Income tax/social contribution:</u>			
Tax loss carryforwards	363,380	-	78,883
Temporary differences in taxable income			
Allowance for doubtful debts	398,296	-	40,776
Present value adjustment	69,232	-	4,102
Provision for contingencies	83,541	-	(8,161)
Depreciation and borrowing costs	(240)	-	(35)
Nondeductible provisions	69,200	-	(12,792)
Profit sharing	29,934	-	4,165
Stock option plan	7,462	-	4,894
Leases	-	93,835	14,224
Capital gain	(69,693)	-	-
Goodwill on business combination	(1,094,807)	-	9,112
Other adjustments	12,219	-	(12,219)
Noncurrent liabilities, net	(131,476)	93,835	122,950
Noncurrent assets	748,501		
( - ) Noncurrent liabilities	(879,977)		
Total	(131,476)		

Deferred income tax and social contribution liabilities primarily arise on intangible assets from acquisitions while deferred income tax and social contribution assets arise from tax loss carryforwards and balances of add-backs to prior and current years' taxable income.

Deferred income tax and social contribution per realization year

Realization year	Consolidated	
	Total	%
2019	330,040	27%
2020	187,687	15%
2021	232,797	19%
2022	193,671	16%
2023 onwards	288,240	23%
	902,395	73%
	<u>1,232,435</u>	<u>100%</u>

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#### **c) Tax incentives**

The University for All Program (ProUNI) grants, under Law 11096 of January 13, 2005, exemption from certain federal taxes to higher education entities that grant partial and full scholarships to low-income students enrolled in traditional and technology degrees. The higher education entities that are Company subsidiaries are included in this Program.

The amount of the tax benefits under the ProUni determined for the period ended June 30, 2019, including PIS and COFINS, is R\$258,551 (R\$384,625 for the period ended June 30, 2018).

## **25. EQUITY**

#### **a) Issued capital**

As at June 30, 2019, the Company's subscribed and paid-in capital totals R\$5,011,677 (R\$4,425,677 as at December 31, 2018). In March 2019, the Board of Directors approved the Company's capital increase by R\$586,000, through the capitalization of part of the reserve for investment balance, without the issue of new shares and change of the number of shares.

	06/30/2019	12/31/2018
Total ex-treasury shares	1,633,622,273	1,629,605,489
Total treasury shares	10,625,933	14,642,717
Total shares	<u>1,644,248,206</u>	<u>1,644,248,206</u>

#### **Treasury shares**

	Number of shares	
	06/30/2019	12/31/2018
Balance as at December 31, 2018	14,642,717	169,265
Buyback of treasury shares	-	17,212,500
Shares sold	(4,016,784)	(2,739,048)
Balance as at June 30, 2019	<u>10,625,933</u>	<u>14,642,717</u>

#### **b) Capital reserve and granted stock options**

The Company grants share-based plans to Group employees, which in turn considered the allocation of the related amounts as from the date the employees joined the Group pursuant to CPC 10/IFRS 2 *Share-based Payment*. See note 25 for further details.

The balance of all capital reserve accounts in the period ended June 30, 2019 is R\$6,324,284 (R\$6,379,742 as at December 31, 2018).

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#### (i) Equity instruments arising on business combinations

The balance of the reserve of equity instruments arises mainly on the merger of Anhanguera shares on July 3, 2014, with the issue of 135,362,103 Company book-entry, registered common shares, without par value.

On the same date, the Company made a capital increase based on the carrying amount of R\$2,327,299 corresponding to the equity of Anhanguera as at December 31, 2013. The difference between the total acquisition price and the amount attributed to the issued capital of R\$5,981,227 was recognized as capital reserve (equity instruments arising from the business combination).

#### c) Dividends

On May 14, 2019 the Board of Directors approved the payment of interim dividends for the first quarter of 2019 amounting to R\$90,531.

## 26. STOCK OPTION PLAN

### Restricted stock option plan

At the Extraordinary Shareholders' Meeting held on September 3, 2018, the Company's shareholders approved the creation of a Restricted Stock Option Plan as an incentive to increase of the performance and retention of officers and/or employees of the Company and its direct or indirect subsidiaries.

The Company may grant rights to receive a maximum number of restricted stock that those not exceed nineteen million, four hundred sixteen thousand, two hundred and thirty-three (19,416,233) shares, a number corresponding to 1.18% of the Company's total share capital on the date the Plan was approved, less treasury shares also on this date.

The Company's obligation to transfer restricted stock under the Plan within ten (10) days from the end of the vesting period, is contingent to the continuity of the employment relationship of the employee and/or officer, as applicable, with the Company during a three-year period after the date of the corresponding employment contract date.

The fair value of the restricted stock granted is measured based on the market price of the Company's stock on grant date.

The restricted stock are granted free of charge to the plan's participants through the transfer of treasury shares.

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The Company offered the beneficiaries of the 2015 Plan whose vesting period of the last allotment ends 2020, 2021, or 2022 the option to: a) remain the holders of their stock options; or b) cancel the stock option balance and replace the stock options on the same date by equivalent stock options under the Restricted Stock Option Plan. The vesting periods of the original agreements were maintained and original gains expected by the beneficiaries remained unchanged in the calculation of the exchange ratio. The fair value of the equity instruments on the change date was separately recalculated for the allotments of each grant and it was concluded that there was no increase, i.e., the original fair value was higher than the current fair value.

The table below shows the variations in the period ended June 30, 2019:

PLANS	Number of restricted shares				06/30/2019	Average strike price
	12/31/2018	Restricted shares granted (i)	Restricted shares settled	Restricted shares cancelled		
KROT_Plano 2015 - Migrados	1,504,272	-	(203,315)	(24,580)	1,276,377	R\$10.73
KROT_Plano 2018 - Novos	7,340,286	342,000	-	-	7,682,286	-
<b>TOTAL</b>	<b>8,844,558</b>	<b>342,000</b>	<b>(203,315)</b>	<b>(24,580)</b>	<b>8,958,663</b>	

The Company recognized the expenses incurred on the Restricted Stock Option Plan grants amounting to R\$14,515 for the period ended June 30, 2019 (R\$0 for the period ended June 30, 2018) as a contra entry to capital reserves in equity. The Company also recognized as personnel expenses charges amounting to R\$4,936 for the period ended June 30, 2019 (R\$0 for the period ended June 30, 2018) as a contra entry to the provisions for charges, in liabilities.

### **Stock option plans**

The purpose of the plans that grant options for the purchase of Company shares options is to attract and retain executives for the Company and its direct and indirect subsidiaries, as well as to encourage a higher integration of such executives with the Company by giving them the opportunity to become shareholders or to increase their holdings in the Company, to obtain a higher interest alignment and thus sharing the success by achieving corporate goals.

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

The stock option plans, approved at Board of Directors' meetings, have the following features:

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Plan	Grant date	Strike price on grant	Vesting period	Active options granted
KROT_Plano2009	02/08/2010 to 0/01/2013	R\$2,18 a R\$5,78	5 allotments with 12-, 24-, 36-, 48- and 60-month vesting periods; or 4 allotments with 6-, 18-, 30- and 42-month vesting periods	2,234,666
AEDU_Plano2010	07/03/2014	R\$ 11.20	3 allotments with 36-, 48- and 60-month vesting periods	85,655
AEDU_Plano2013	06/18/2013 to 07/03/2014	R\$9,94 a R\$11,20	3 allotments with 36-, 48- and 60-month vesting periods	848,339
KROT_Plano2013	11/26/2013 to 06/02/2015	R\$5,67 a R\$13,01	4 allotments with 6-, 18- and 42-month vesting periods	7,010,000
KROT_Plano2015	10/05/2015 to 02/01/2016	R\$8,42 a R\$9,65	4 allotments with 6-, 18-, 30- and 42-month vesting periods	19,299,294
				<u>29,477,954</u>

The strike price will be paid by the beneficiaries to the Company at sight, upon the acquisition or subscription or as determined by the Board of Directors for each agreement.

The changes in the number of outstanding stock options and their related weighted-average prices, considering the stock split retrospectively, are shown below:

PLANS	Number of stock options				06/30/2019	Average strike price
	12/31/2018	Options granted	Options exercised (i)	Options cancelled/ forfeited		
AEDU_Plano 2010	85,655	-	-	-	85,655	R\$6.20
AEDU_Plano 2013	4,375,567	-	(3,527,228)	-	848,339	R\$9.65
KROT_Plano 2009	2,314,666	-	(80,000)	-	2,234,666	R\$2.92
KROT_Plano 2013	7,050,000	-	-	(40,000)	7,010,000	R\$7.17
KROT_Plano 2015	19,545,294	-	(246,000)	-	19,299,294	R\$8.95
<b>TOTAL</b>	<b>33,371,182</b>	<b>-</b>	<b>(3,853,228)</b>	<b>(40,000)</b>	<b>29,477,954</b>	

- (i) In the period ended June 30, 2019, 3,853,228 stock options were exercised against the disposal of treasury shares (in the year ended December 31, 2018, 6,152,295 stock options were exercised, of which 3,721,758 via capital increase with the specific goal of delivering new shares to the beneficiaries, and 2,430,537 against the disposal of treasury shares).

### Fair value calculation and expense in profit or loss

The fair value of the stock options granted is recognized as an expense. The contra entry is recognized under line item capital reserve, in equity.

Beginning 2015, the Company started to use the Binominal model to calculate the fair value of the each stock option granted.

The Company did not change the method for the previously granted stock options, pursuant to CPC 10 rules, which are still calculated using the Black & Scholes model.

The last vesting date of the stock option agreement in place with the longest vesting period is November 6, 2019.



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The assumptions used to calculate the fair value of the stock options granted under each Stock Option Plan in place are as follows:

	Plans			AEDU	
	2009 Plan	2013 Plan	2015 Plan	2010 Plan	2012 Plan
Stock Price	R\$2,31 a R\$7,00	R\$9,48 a R\$15,84	R\$8,81 a R\$18,24	R\$ 3.73	R\$ 3.73
Risk-free rate	6,0% a 9,0%	7,0% a 12,6%	6,8% a 16,5%	12.60%	12.60%
Expected annual volatility	27,9% a 35,0%	24,7% a 37,3%	38,4% a 40,8%	31.10%	31.10%
Volatility calculation model	Desvio Padrão	Desvio Padrão ou EWMA	EWMA ou Garch	Desvio Padrão	Desvio Padrão
Expected dividends	0% a 3,4%	2,1% a 3,5%	3.50%	2.60%	2.60%
Plan duration in years	6 a 10	5 a 8	8	6	5
Stock option's fair value on grant date (R\$/share)	R\$0,75 a R\$2,22	R\$2,44 a R\$5,64	R\$3,27 a R\$5,38	R\$ 2.73	R\$ 5.55

(i) Plan exercisable by 2020

In the period ended June 30, 2019, R\$1,995 were recognized as stock option fair value expenses (R\$15,431 recognized at June 30, 2018).

## 27. RELATED PARTIES

The intragroup balances and transactions are as follows:

- (i) Subsidiaries Unic Educacional, Unime LF and Iuni use properties leased from Vertia Empreendimentos Imobiliários Ltda. (company controlled by a Kroton shareholder, member of the Board of Directors):

Subsidiary	Agreement end date	Monthly rental	Adjustment index
Unic Educacional	March 2020	198	IPCA
Unime LF	March 2020	669	IPCA
Iuni	March 2020	1,177	IPCA

- (ii) Subsidiary EDE uses properties leased from Creare Administração de Bens Móveis e Imóveis Ltda. (company controlled by members of Kroton's Board of Directors):

Subsidiary	Agreement end date	Monthly rental	Adjustment index
EDE	January 2032	1,298	IPCA

- (iii) Subsidiary AESAPAR uses property leased from HK Campinas Empreendimentos Imobiliários Ltda. (company controlled by a sibling of a member of the Company's Board of Directors). The agreement is effective until December 2024 and has a fixed monthly amount of R\$359 (Mar 2019). This amount is indexed to the IPCA.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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- (iv) Subsidiary PITÁGORAS uses a property leased from Sistema Pitágoras de Ensino Sociedade Ltda. (company controlled by member of the Company's Board of Directors). The agreement is effective until August 2023 and has a fixed monthly amount of R\$359 (Mar 2019). This amount is indexed to the IPCA.
- (v) An onerous donation agreement was entered into by Kroton Educacional S.A. with Fundação Pitágoras to ensure the Foundation meets its corporate and institution purposes. There was a disbursement of R\$450 relating to this agreement in 2019.
- (vi) The Company's balance receivable from related parties refers mainly to private debentures receivable from subsidiary EDE amounting to R\$9,445 in the short term and R\$800,218 in the long run, with maturities and bearing interest in line with the transactions disclosed in note 17. The Company discloses finance income for the period ended June 30, 2019 totaling R\$9,021 earned in this transaction.

#### **a) Compensation of key management personnel**

Key management personnel includes the members of the Board of Directors and the Supervisory Council, the CEO, the vice presidents, and the statutory officers.

The Extraordinary Shareholders' Meeting set the ceiling of management's annual overall compensation for the year ending December 31, 2019 at R\$74,628 (R\$83,785 as at December 31, 2018). Compensation paid to management is as follows:

#### Compensation of key management personnel

	01/01 to 06/30/2019	01/01 to 06/30/2018
Payroll	6,537	6,295
Benefits	213	274
Charges	1,356	1,324
Variable compensation (i)	4,407	5,749
Stock option plan	8,357	4,984
	<u>20,870</u>	<u>18,626</u>

- (i) Variable compensation set forth in an agreement with the statutory officers.

# KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

## NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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### 28. NET OPERATING REVENUE

	Consolidated			
	04/01 to 06/30/2019	06/30/2019	04/01 to 06/30/2018	06/30/2018
<u>In-class higher education</u>				
Gross revenue	1,341,817	2,611,615	1,586,929	2,950,427
Deductions from gross revenue				
Taxes	(34,300)	(63,354)	(39,477)	(79,929)
ProUni	(189,154)	(378,837)	(205,283)	(390,350)
Discounts	(35,116)	(112,339)	(155,808)	(228,799)
Net revenue	<u>1,083,247</u>	<u>2,057,085</u>	<u>1,186,361</u>	<u>2,251,349</u>
<u>EAD higher education</u>				
Gross revenue	437,703	825,602	393,011	739,336
Deductions from gross revenue				
Taxes	(9,707)	(17,381)	(7,757)	(14,789)
ProUni	(66,440)	(129,865)	(71,770)	(130,349)
Discounts	(27,896)	(53,270)	(23,363)	(41,749)
Net revenue	<u>333,660</u>	<u>625,086</u>	<u>290,121</u>	<u>552,449</u>
Higher education net revenue	<u>1,416,907</u>	<u>2,682,171</u>	<u>1,476,482</u>	<u>2,803,798</u>
<u>K-12 education</u>				
Gross revenue	393,903	1,072,475	56,215	104,218
Deductions from gross revenue				
Taxes	(17,825)	(35,505)	(1,900)	(3,185)
Returns	(50,630)	(137,679)	(4,524)	(15,233)
Net revenue	<u>325,448</u>	<u>899,291</u>	<u>49,791</u>	<u>85,800</u>
<u>Total</u>				
Gross revenue	2,173,423	4,509,692	2,036,155	3,793,981
Deductions from gross revenue				
Taxes	(61,832)	(116,240)	(49,134)	(97,903)
ProUni	(255,594)	(508,702)	(277,053)	(520,699)
Discounts	(63,012)	(165,609)	(179,171)	(270,548)
Returns	(50,630)	(137,679)	(4,524)	(15,233)
Net revenue	<u>1,742,355</u>	<u>3,581,462</u>	<u>1,526,273</u>	<u>2,889,598</u>

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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## 29. COSTS AND EXPENSES BY NATURE

	Parent				Consolidado			
	04/01 to 06/30/2019	06/30/2019	04/01 to 06/30/2018	06/30/2018	01/04 a 30/06/2019	30/06/2019	01/04 a 30/06/2018	30/06/2018
Payroll and related taxes	(240)	1,466	(23,947)	33,837	(588,963)	(1,107,682)	(466,608)	(837,274)
Depreciation and amortization	(783)	(3,830)	(762)	(8,358)	(90,277)	(256,087)	(84,952)	(169,067)
Depreciation - IFRS 16	-	-	-	-	(94,717)	(151,895)	-	-
Amortization of allocated goodwill	(17,976)	(35,951)	(17,976)	(20,761)	(163,879)	(181,855)	(18,141)	(36,248)
Amortization of publishing costs	-	-	-	-	(20,552)	(42,519)	-	-
Amortization of inventory appreciation	-	-	-	-	(1,325)	(4,797)	-	-
Rental and common area maintenance fees (i)	-	-	-	-	(13,872)	(30,308)	(106,436)	(207,448)
Allowance for doubtful debts	-	-	-	-	(187,481)	(398,353)	(182,770)	(343,601)
Utilities, cleaning, and security	(283)	(365)	(55)	(150)	(84,310)	(154,319)	(56,466)	(103,722)
Publicity and advertising	(214)	(218)	(40)	(218)	(76,361)	(223,702)	(102,860)	(201,758)
Outside services	-	-	-	-	(2,571)	(4,686)	(2,620)	(4,898)
Consulting and advisory	(519)	(876)	(362)	(445)	(39,684)	(83,262)	(41,722)	(75,606)
Cost of sales	-	-	-	-	(19,115)	(136,201)	(10,386)	(15,480)
Travel	-	-	-	-	(13,338)	(24,737)	(13,560)	(20,026)
Copyrights	-	-	-	-	(14,477)	(48,374)	1,594	515
Fees and contributions	(15)	(16)	(2)	(3)	(4,295)	(21,275)	(8,475)	(16,880)
Contingencies	600	17,554	12,121	24,289	30,795	60,301	28,635	50,838
Other income (expenses) - net	4,513	8,196	(21)	(8,379)	(106,267)	(126,993)	(42,514)	(64,334)
	<u>(14,917)</u>	<u>(14,040)</u>	<u>(31,044)</u>	<u>19,812</u>	<u>(1,490,689)</u>	<u>(2,936,744)</u>	<u>(1,107,281)</u>	<u>(2,044,989)</u>
Cost of sales and services	-	-	-	-	(638,378)	(1,320,617)	(592,377)	(1,082,928)
Selling expenses	-	-	-	-	(357,827)	(708,864)	(303,029)	(578,124)
General and administrative expenses	(14,917)	(14,040)	(31,044)	19,812	(475,585)	(890,826)	(206,078)	(377,410)
Other operating income (expenses), net	-	-	-	-	(18,899)	(16,437)	(5,797)	(6,527)
	<u>(14,917)</u>	<u>(14,040)</u>	<u>(31,044)</u>	<u>19,812</u>	<u>(1,490,689)</u>	<u>(2,936,744)</u>	<u>(1,107,281)</u>	<u>(2,044,989)</u>

- (i) Since the adoption of IFRS 16 *Leases*, only rentals and common area maintenance fees relating to variable lease payments or linked to short-term or low-value contracts are recognized as expenses in this group.

## 30. FINANCE INCOME (COSTS)

	Parent				Consolidated			
	04/01 to 06/30/2019	06/30/2019	04/01 to 06/30/2018	06/30/2018	04/01 to 06/30/2019	06/30/2019	04/01 to 06/30/2018	06/30/2018
<b>Finance income</b>								
Interest on monthly tuitions	-	-	-	-	28,490	94,693	42,932	84,340
Income from short-term investments and securities	127	269	1,435	4,374	18,997	49,908	17,226	40,642
Discounts obtained	-	-	-	-	438	889	49	90
Sublease interest	-	-	-	-	236	432	-	-
Interest receivable	-	-	-	-	8,949	15,149	-	-
Other	9,021	9,021	-	-	13,749	18,000	5,251	10,290
	<u>9,148</u>	<u>9,290</u>	<u>1,435</u>	<u>4,374</u>	<u>70,859</u>	<u>179,071</u>	<u>65,458</u>	<u>135,362</u>
<b>Finance costs</b>								
Interest and costs on debentures (i)	(9,702)	(9,702)	-	-	(153,634)	(290,267)	(2,484)	(6,129)
Adjustment to payables for acquisitions of subsidiaries	-	-	-	-	(4,629)	(10,444)	(2,742)	(4,409)
Banking and collection fees	(7)	(12)	(3)	(4)	(5,033)	(11,693)	(8,415)	(12,249)
Interest and fines on late payments	-	-	-	-	(1,196)	(3,979)	(708)	(1,046)
Interest and fines on late payment of taxes	-	-	-	-	(9,258)	(17,351)	(516)	(1,156)
Adjustment to contingencies	-	-	(159)	(485)	-	-	(2,457)	(3,662)
Interest on leases	-	-	-	-	(75,388)	(151,212)	-	-
Other	(104)	(205)	(31)	(71)	(13,276)	(22,823)	(1,757)	(1,118)
	<u>(9,813)</u>	<u>(9,919)</u>	<u>(193)</u>	<u>(560)</u>	<u>(262,414)</u>	<u>(507,769)</u>	<u>(19,079)</u>	<u>(29,769)</u>
Finance income (costs)	<u>(665)</u>	<u>(629)</u>	<u>1,242</u>	<u>3,814</u>	<u>(191,555)</u>	<u>(328,698)</u>	<u>46,379</u>	<u>105,593</u>

- (i) Increase relating to the debentures issued by the Company's subsidiary, as disclosed in note 17.

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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## 31. SEGMENT REPORTING

The Company's products are categorized into three operating segments: In-class higher education, Distance learning higher education (EAD), and K-12 education.

### Segment reporting – 2019 consolidated

	Period ended June 30, 2019				
	In-class higher education	EAD higher education	K-12 education	Unallocated portion	Total
Net revenue	2,057,086	625,086	899,290	-	3,581,462
Cost of sales and services	(748,625)	(96,013)	(475,979)	-	(1,320,617)
	1,308,461	529,073	423,311	-	2,260,845
Operating expenses:					
Selling expenses	(444,876)	(177,295)	(86,693)	-	(708,864)
General and administrative expenses	(361,464)	(154,854)	(218,259)	(156,249)	(890,826)
Other expenses, net	-	-	-	(17,031)	(17,031)
Operating profit (loss) and before finance income (costs)	502,121	196,924	118,359	(173,280)	644,124
Assets	15,797,051	5,080,663	12,895,115	64,202	33,837,032
Current and noncurrent liabilities	3,664,738	1,174,992	10,781,830	2,164,825	17,786,385

### Segment reporting – 2018 consolidated

	Quarter ended 06/30/2018				
	In-class higher education	EAD higher education	K-12 education	Unallocated portion	Total
Net revenue	1,186,360	290,122	49,791	-	1,526,273
Cost of sales and services	(515,834)	(42,333)	(34,210)	-	(592,377)
	670,526	247,789	15,581	-	933,896
Operating expenses:					
Selling expenses	(221,710)	(75,546)	(5,773)	-	(303,029)
General and administrative expenses	(67,494)	(22,422)	(1,947)	(114,215)	(206,078)
Other expenses, net	-	-	-	(5,797)	(5,797)
Proceeds from sale of subsidiaries	-	-	-	-	-
Operating profit (loss) and before finance income (costs)	381,322	149,821	7,861	(120,012)	418,992
Assets	12,878,555	5,691,743	561,027	13,402	19,144,727
Current and noncurrent liabilities	1,829,557	531,921	290,081	770,714	3,422,273

## 32. EARNINGS PER SHARE

### a) Basic

Basic earning per share are calculated by dividing profit attributable to the holders of Company common shares by the weight average number of common shares held by the shareholders (less treasury shares) during the period.

	06/30/2019	06/30/2018
Profit attributable to Company owners	389,987	942,762
Weighted average number of outstanding common shares (in thousands)	1,630,596	1,632,588
Basic earnings per common share	0.24	0.58

## KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2019

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#### **b) Diluted**

For dilution purposes, the Company has a stock option plan offered to beneficiaries, which permits the issuance of shares when a stock option becomes vested. As at December 31, 2018, there are shares with dilution potential since their average strike price in the period is lower than the average price of the Company's shares in the market.

	06/30/2019	06/30/2018
Profit attributable to Company owners	389,987	942,762
Weighted average number of outstanding common shares (in thousands)	1,630,596	1,632,588
Potential increase in common shares (in thousands)	29,004	27,482
Diluted earnings per common share	0.23	0.57

Belo Horizonte, August 14, 2019 – Kroton Educacional S.A. (B3: KROT3; OTCQX: KROTY), “Kroton” or the “Company,” announces today its results for the second quarter of 2019 (2Q19). The Company’s financial information is presented on a consolidated basis and in Brazilian real, in accordance with Brazilian Corporate Law and Generally Accepted Accounting Principles in Brazil (BRGAAP), and already conforms to International Financial Reporting Standards (IFRS), except where stated otherwise.

## *MESSAGE FROM MANAGEMENT*

Looking back at the last decade, Kroton’s history has been marked by strategic decisions that have changed its course. In 2011, we invested in the digitalization of Education and acquired the country’s best and largest distance learning platform, Unopar. Time has confirmed the value of that decision. In 2013, based on our vision that the time was precise to consolidate the Postsecondary Education industry, given that scale is important for creating value, we merged with Anhanguera in another strategic move that proved highly value accretive. These were transformational consolidation events that captured important efficiency gains. We improved our operational and financial indicators while delivering robust returns for our shareholders and attaining important advances in our regulatory scores for academic quality in Postsecondary Education. These achievements are all a great source of pride, are imprinted in Kroton’s corporate DNA and will continue to be pursued.

In late 2017, we embarked on a profound reflection on Kroton’s future, especially the impacts that technology could bring for our current businesses and the opportunities that a digital mindset creates for new business models in Education. From this reflection arose a new momentum in the organization based on two strategic and complementary vectors: the decision to expand our presence in Primary and Secondary Education and our mobilization on a profound journey in digital transformation.

The decision to expand our footprint in Primary and Secondary Education led to our acquisition of Somos, in 2018, which leverages our two strategies in this segment: providing services directly to students in our operation of Schools (B2C) and creating the most complete Services Platform for K12 Schools in the country (B2B).

In relation to our digital transformation journey, we are undergoing a cultural change without precedent, rethinking the manner in which technology impacts the current businesses and creating new education businesses. When we say that one of the main legacies of the digital transformation was the change in our organizational culture, that was not mere rhetoric, but rather affirmation that implementing agility on a large scale, developing digital competencies and closely engaging with an innovation ecosystem would be (and has been) crucial for oxygenating Kroton as a whole and helping to change the status quo, by imagining and developing services that will ensure our future growth.

These strategies are now driving the onset of a new era for Kroton, and the transformation has been so intense that a new management structure is being implemented, with redesigned vertical structures that will unleash operational autonomy and unlock value through distinct strategic moves and approaches.

In parallel to the delivery of services directly to end consumers (B2C models), a great opportunity is emerging (and being captured) to expand B2B solutions marked by subscription-based, recurring-revenue, scalable and technology-based models. Soon we will be hosting our “Kroton Day” to share with the market our vision for the future and how Kroton is organizing itself to capture all of these opportunities.

With regard to our perspectives for 2019, we reaffirm our guidance for the full year. We are building the future, but without losing sight of our near-term commitments, and we believe that this is the optimal value proposition: delivering on our commitments undertaken for the foreseeable horizon while building the foundations to support a true revolution.

We are certain that we are ushering in a new era for Kroton that will strengthen our existing businesses while creating new avenues of growth, but without ever losing sight of our proposition to transform lives through Education.

## OPERATING PERFORMANCE

### POSTSECONDARY EDUCATION SEGMENT

#### Evolution in the Number of Postsecondary Students

At the end of 2Q19, Kroton had 888,370 students enrolled in the Postsecondary Education segment (Undergraduate and Graduate), considering the On-Campus and Distance Learning formats, representing contraction of 5.2% from the same period last year. This negative variation in the student base reflects the higher number of graduations in the period due to the robust new enrollments in 2013 and 2014, as well as the shift in the profile of the student base, with fewer FIES students (who traditionally have lower dropout rates) and more students enrolled in 100%-online DL programs (who have a higher propensity to drop out). Furthermore, the persistence of a high unemployment rate and the slow economic recovery also pressured dropout rates. On the other hand, Kroton has been investing significantly in updating the portfolio of programs offered and in its employability channel as a way to mitigate these effects and ensure solid student recruiting results. The operation's resilience also is supported by the strength of the group's brands and by the quality of the education offered, both of which are important competitive advantages. Compared to the prior quarter, the 7.6% reduction is explained by the natural seasonality of the business. A breakdown by teaching format shows that the On-campus Postsecondary Education segment accounted for 41% of the student base, while the Distance Learning segment accounted for the other 59%.

It is worth noting that the admissions and re-enrollment processes for the second semester of 2019 are still ongoing, which include the opening of 3 new campuses compared to the first semester. The processes are scheduled to end in September.

#### 1. Undergraduate

##### 1.1 On-Campus Undergraduate

###### FIES

At the end of 1H19, the Company had 64,531 students enrolled with FIES contracts, down 43.1% from the same period of 2018, following the trend of recent quarters, with increasingly fewer new students under the financing program and higher graduations of these students. As a result, FIES students accounted for 18.3% of the On-Campus Undergraduate base, or 7.6% of the total Undergraduate student base, down 11.1 p.p. and 5.0 p.p., respectively, from a year earlier.

From 2014 to end-2019, the FIES student base will contract by over 75%, which shows that the Company's student base continues to be replaced by students without this type of financing. As of 2020, it is estimated that less than 14% of the on-campus base or 5.8% of the total Kroton student base will use FIES.



## Private Special Installment Plan (PEP) and Late Enrollment Installment Plan (PMT)

Considering its installment payment products, Kroton closed the semester with about 55,200 students enrolled in PEP programs, with around 25,200 enrolled in PEP30 and 30,000 in PEP50. For the student-recruiting process for the second semester of 2019, Kroton will continue to draw on the strength of this product to attract new students, projecting exposure in line with that of the product's historical figures, although more balanced between PEP30 and PEP50. Note that Kroton continues to adopt the same conservative policies as in previous quarters for revenue recognition, including for calculating the Adjustment to Present Value (APV) of revenue and for provisioning losses from bad debt, which is accrued at 50% of the financed portion for all PEP students.

Note also that the dropout curve is naturally higher during the first semesters of academic programs and that the actual dropout rate of PEP students is comparable to that of students without the installment plans within the same semesters. This behavior is true for both PEP30 and PEP50.

Meanwhile, PMT (or temporary PEP) is an alternative to the payment in installments of monthly tuitions related exclusively to periods during which new students were not yet enrolled because they were admitted after the start of classes, but still with sufficient time to complete the minimum classroom hours in the semester. Instead of exempting students from these monthly tuitions, Kroton started to offer this option to new On-campus students as of the second semester of 2016, and to new DL students as of the first semester of 2017. In this way, the Company continues to attract freshmen, enabling their late enrollment without foregoing revenues by granting scholarships or discounts. Note that Kroton adopts the same accounting practice as PEP for PMT, whereby revenues are adjusted to present value and provisions for bad debt are accrued for 50% of the installment amounts. In addition, as with the policy adopted for PEP, the outstanding balance of these tuitions becomes due automatically if the student drops out before graduation.

## Evolution of On-Campus Dropout Rate

Dropout rates in the period worsened 1.8 p.p. from the prior year in the On-Campus segment, reversing the trend of recent quarters. The result reflects the greater experience of retention teams acquired within the Student Retention Program that have been able to identify more quickly, that is, before the turn of the semester, students who have already dropped out and who have stopped attending classrooms. In addition, the higher dropout also considers pressures from the macroeconomic scenario marked by still-high unemployment rates and from the shift in the student base profile, with the graduation of FIES students, who, due to the program's original characteristics, are less likely to drop out.

### 1.2 Distance Learning Undergraduate

## Evolution of Distance Learning Dropout Rate

In the DL segment, the dropout rate reached 8.3% in 2Q19, increasing 1.8 p.p. from the year-ago period, but in line with the trend observed in recent quarters. The performance reflects the growth in the base of 100%-online students, who are more prone to drop out given their lower engagement, as well as the still challenging competitive environment and the effects from the still high unemployment rate. These effects were partially offset by the roll-out to this segment of initiatives under the Retention Program.

## 2. Continuing Education

### 2.1 Graduate

Considering only Graduate programs, the student base expanded significantly by 20.4% on the year-ago period, supported by the recent student recruiting processes, mainly in the Distance Learning segment. The annual growth of above 20% is already happening, in a sustainable manner, for the second year in a row, and reflects the restructuring of the segment in recent years, through a new platform, a more robust offering and focused on our own and partner units. This performance more than offset the significant number of graduations, of approximately 11,000 students. Bear in mind that the LFG brand also offers Graduate programs, whose students are included in the total student number in the segment. Therefore, Kroton ended the quarter with around 42,400 students enrolled in Graduate programs, of whom 34,400 students were in Distance Learning programs and 8,000 were in On-Campus programs.

### 2.2 Preparatory Courses (LFG), Unregulated Programs, Language Courses and SETS

Through the LFG brand, the Company offers preparatory courses for the examination of the Brazilian Bar Association (OAB) and for examinations for civil servant positions. Positioned as a reference in preparatory courses, LFG registered an average student base of 27,569 in 2Q19, representing a decrease of 3.4% from the same period of 2018.

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 2Q19, there were 37,267 students enrolled in these programs, for a strong increase of 65.9% from the previous year.

The business segment of Educational Solutions for Vocational and Postsecondary Education (SETS) was consolidated after the acquisition of Somos under the Continuing Education Vice-Presidency. SETS is responsible for the sale of books with the Saraiva brand to Postsecondary Education, learning systems for vocational programs under the brand Érica, and preparatory courses for civil servant exams. The main products offered include the sale of Scientific, Technical and Professional (CTP) books, especially in the fields of Law, Business Administration, Economics and Accounting, Technical and Non-Fiction. In 2Q19, a total of 468,439 books were sold, representing a decrease of 8.8% from the same period last year, due to the concentration of sales in the previous quarter and to the adverse scenario for book retailers in the period.

## PRIMARY AND SECONDARY EDUCATION (K12) SEGMENT

### Structuring of K12 Education Segment

Following the consolidation of Somos, Kroton now has the most complete technology platform with solutions for products and services for Primary & Secondary Education in Brazil, including own schools, physical and digital teaching content, assessments, teacher training, extracurricular educational content (after school), educational technology and other services.

Kroton's Primary and Secondary Education segment is now structured into two main Business Units:

1. **K12 Integrated Services Platform & PNLD/Official Contracts:** includes all products and services offered to partner schools, such as physical and digital content, teaching support, assessment, teacher training, extracurricular educational content (after school), educational technology and other services. The segment also includes services related to the National Textbook Program (PNLD) and other contracts with official government agencies. The PNLD/Official Contracts business uses the same Publishing, support and

marketing areas, etc. as the K12 integrated platform. Therefore, to better reflect the business as a whole (without the need for allocations), both segments were combined, but their revenues are presented separately to enable a segregated analysis of their individual growth.

2. **School Management:** includes the performance of own K12 schools, as well management contracts for third-party schools (in which large companies/organizations hire us to manage their school units), in addition to all Red Balloon operations (own schools, franchises and in-school units). The Red Balloon operation is consolidated under the School Management Unit, since most of its students study at autonomous units.

The services that were offered at Somos by SETS (related to Vocational and Postsecondary Education, and Preparatory courses for civil servant exams) now comprise the results of the Postsecondary Education segment, in the Continuing Education Business Unit.

Additionally, note that the Company is currently fully engaged in commercial activities for 2020, with a renewed and expanded sales team focused on delivering even stronger results for the next school year. Recently, Kroton launched a new commercial strategy with a highly effective and unique approach. The sales team, which previously interfaced with the school offering isolated products and services, has been repositioned to give it an integrated perspective that connects all products and services of the Company.

Given the integration and comprehensiveness of its portfolio, the Company adopts a neutral position with regard to the educational choices of schools, offering them their methodology of choice: Learning Systems, Textbooks or a mix of both, depending on the educational segment. The approach gives a unique market positioning, with the ability to serve all Brazilian schools, as opposed to its competitors that operate exclusive through Learning Systems or Textbooks. Thus, the addressable market includes 6.2 million students, up 63% from the 3.8 million students enrolled in schools using the Learning System.

The initial results of this strategy have been very positive and much higher than the same period last year, even exceeding the partial targets. However, there is still much to be done, since contracts for next year are generally closed in the second half of the year. Note also that Somos's commercial team, composed of Commercial Advisors, Educational Advisors, Product Specialists and Marketing and Events teams, is by far the largest commercial team in Brazil. Somos also has the largest Market Intelligence team in the industry, conducting, among other activities, the annual census in over 20,000 private schools to map the products and services schools intend to use. The current campaign also inaugurated the Somos' Inside Sales area, responsible for planning and executing digital marketing strategies, with very promising partial results.

For the 2020 PNLD, Somos approved 20 of the 22 book collections submitted, for an approval rate much higher than its historical figures and the industry average, remembering that the technical appeals filed for the two collections that were not approved could still be accepted. The disclosure and negotiation of PNLD usually takes place in the third quarter.

Lastly, regarding own schools, in 2Q19 the Company made progress on integrating all units to capture efficiency gains and worked intensely on the commercial strategy for next year, whose implementation process starts in 3Q19. The Company expects very positive results in enrollments and re-enrollments for 2020 arising from the combination of this new strategy and the improvements in the sales force and their incentives made during the 1H19.

# FINANCIAL PERFORMANCE

## Net Revenue

In 2Q19, net revenue amounted to R\$1,742.4 million, up 14.2% from the prior-year period, which is mainly explained by the consolidation of Somos and the other schools acquired by Saber during 2018 (Leonardo da Vinci and Lato Sensus), as well as by the strong performance of Continuing Education due to the consolidation of SETS into the results and to the higher average ticket in both Postsecondary Education segments: On-campus and Distance Learning. These effects offset the reduction in net revenue from Postsecondary Education due to the higher number of graduations associated with the robust enrollment of new students in 2013 and 2014 and to the dropout rate in the period. Net revenue growth also was adversely affected by the shift in the student base profile, the lower use of PEP plans in the last student recruiting cycle and the lower share of students with PMT plans in the quarter. In the six months to June, net revenue came to R\$3,581.5 million, advancing 23.9% on 1H18.

## Costs

In 2Q19, cost of goods and services corresponded to 36.6% of net revenue for the period, improving 2.2 p.p. from 2Q18, reflecting the economies of scale in Postsecondary Education and the capture of synergies and efficiency gains in K-12 Education due to the integration of Somos. In 1H19, the ratio of cost of goods and services stood at 36.9%, up 0.6 p.p. from the same period last year.

## Gross Income

Gross income was R\$1,104.0 million with gross margin of 63.4%, reflecting increases of 18.2% and 2.2 p.p., respectively, compared to the prior-year quarter, reflecting the improvements in revenue and costs described above. As a result, in the six months to June, gross income was R\$2,260.8 million with gross margin of 63.1%, representing increases of 25.1% and 0.6 p.p. from 1H18.

## Operating Expenses

### Selling Expenses

Selling expenses include expenses with the sales team, advertising and marketing, copyrights and Provision for Doubtful Accounts (PDA). In 2Q19, this group of expenses corresponded to 20.5% of net revenue, up 0.7 p.p. from 19.9% in 2Q18, which is mainly due to the higher marketing expenses in the K-12 segment, which is aligned with the new commercial strategy and is a crucial factor for ensuring the growing result from the schools served, whether through sales of learning systems or the distribution of textbooks. Note that the Company is fully engaged in commercial activities with a renewed sales team. In 1H19, selling expenses corresponded to 19.8% of net revenue for the period, virtually stable in relation to the 20.0% registered in 1H18.

### General and Administrative Expenses

General and administrative expenses include expenses with administrative personnel, consulting services, travel, outsourcing and other. In 2Q19, these expenses corresponded to 27.3% of net revenue, 13.8 p.p. higher than in 2Q18, mainly due to the

consolidation of Somos and the launch of new Postsecondary units in the period. As a result, in 1H19, general and administrative expenses corresponded to 24.9% of net revenue, 11.8 p.p. higher than in 1Q18.

### Other Operating Income (Expenses)

Other operating expenses amounted to R\$18.9 million, corresponding to 1.1% of net revenue, up 0.7 p.p. from the prior-year quarter. In 1H19, the Company posted total other operating expenses of R\$16.4 million, corresponding to 0.5% of period net revenue, up 0.2 p.p. from 1H18.

### Financial Result

In 2Q19, the Company posted a net financial expense of R\$191.6 million, representing a reversal from the net financial income of R\$46.4 million in 2Q18, reflecting the financial charges on the debt secured to acquire Somos and the impact from the adoption of IFRS16. In the six months to June, the Company recorded a net financial expense of R\$328.7 million, compared to net financial income of R\$105.6 million in 1H18.

### Net Income (Loss)

In 2Q19, net income was R\$134.7 million with net margin of 7.7%, down 71.2% and 22.9 p.p. from the same period last year. The main factors in this performance include (i) the higher depreciation from investments in the production of content and technology, which have shorter depreciable useful lives, and (ii) the higher financial expenses associated with the debt secured to acquire Somos. In the six-month period, net income was R\$396.8 million with net margin of 11.1%, representing decreases of 57.9% and 21.5 p.p. from the year-ago period, due to the aforementioned factors.

### Capex and Investments in Expansion

In 2Q19, Kroton invested R\$120.6 million, allocated as follows:

- Information technology and library equipment: R\$6.5 million (5%);
- Content and systems development and software licenses: R\$92.8 million (77%);
- Laboratory and related equipment: R\$5.9 million (5%);
- Expansions – construction and improvements: R\$15.4 million (13%).

In 2Q19, capex corresponded to 6.9% as a ratio of net revenue, most of which was allocated to content development, systems and software licenses, which accounted for 77% of the total amount and accompanied the expansion of Kroton's portfolio in recent years, especially with the addition of new Premium DL programs, in addition to all K12 content. In this respect, note that, after the consolidation of Somos, Kroton now makes publishing investments for the production of textbooks, which are already included in the capex figure. Another large expenditure was related to the renovations and improvements at existing units to prepare them to meet students' expectations and to adapt them to the change in the program portfolio being implemented by the Company. In the six-month period, investments amounted to R\$227.3 million, which corresponds to 6.4% of net revenue in the period.

Note that, since the start of the year, investments in special projects are now recognized as recurring capex, in other words, all investments, except expansion, are included in the line "Capex." Accordingly, investments relating to the implementation of new units amounted to R\$52.8 million in the quarter and R\$97.9 million in 1H19, representing 3.0% and 2.7% of net revenue, respectively.

## Net Debt

At the end of 2Q19, total cash and financial investments amounted to R\$1.0 billion, down 49.8% from the previous quarter, reflecting the expenditures made in the quarter related to the tender offer to delist Somos, as well as the cash burn of the operation, the payment of interest on debentures, the investments in expansion and the payment of dividends. After the consolidation of Somos and its liabilities into the balance sheet of Saber (a wholly owned subsidiary of Kroton), total net debt ended 2Q19 at R\$7.4 billion. The amount takes into consideration the debentures issue of R\$800 million in April to strengthen working capital and to lengthen the Company's average maturity term, and explains the 34% increase in total loans and financing compared to the previous quarter. Considering all short-term and long-term obligations, which include taxes and contributions paid in installments and the obligations and rights related to past acquisitions, Kroton ended the period with net debt of R\$7.8 billion. Total long-term obligations include amounts related to installment payments for acquisitions, especially those for Uniasselvi, which are being repaid in six annual installments since 2013, in addition to various debentures issued by Kroton and Somos over the last few years. In addition, it is important to remember that Kroton also has short-term and long-term receivables that will have a positive impact on its cash in the coming years. These receivables include both short-term accounts receivables, which correspond to one of the installments from the sales of Uniasselvi, FAIR and FAC/FAMAT, and long-term accounts receivables related to the remaining 3 installments of the payment for Uniasselvi, FAIR and FAC/FAMAT adjusted to present value (excluding the earn-out amounts), which will be received annually through 2022. Therefore, adding all short-term and long-term receivables, the net debt balance would be even slightly lower, at R\$7.3 billion. However, it is important to note that the current indebtedness level is consistent with the Company's projects and opportunities, and is below the financial covenants agreed upon with bondholders.

## Cash Flow

The Company's Free Cash Flow stems from cash flow from operating activities, which is derived from net income adjusted for all noncash effects in the profit and loss and comprises all variations in working capital, taxes paid (income tax and social contribution) and investments made (ex-acquisitions), and from cash flow from non-operating activities, which includes all financial flows not related to the operations.

On this basis, operating cash generation before capex was R\$261.5 million in 2Q19, 38.6% lower than in 2Q18, which is explained by the higher cash burn by the Company's installment payment products and by the increase in PDA due to the still-turbulent economic scenario and the higher financial charges in the period. Additionally, the lower cash generation in the period also reflects the consolidation of Somos, who has a cash consumption profile in the first half of the year, in addition to postponements of payments under the PNLD program. These factors combined offset the payment by the government of the last FIES installment under PN23. After adding capex disbursements, operating cash generation in 2Q19 reached R\$140.9 million, a reversal from the cash burn recorded in the last quarter, showing the efforts made to mitigate the pressures faced by the Company from the shift in the student profile and the cost from offering installment products using own capital. Free cash flow was negative R\$995.8 million, due to the disbursements in the quarter to carry out the public tender offer related to the delisting of Somos.

Operating cash flow after capex corresponded to 22.6% of EBITDA in 2Q19. Meanwhile, free cash flow after disbursements with capex in the six-month period was negative R\$88.9 million, which reflects not only the cash consumption in 1Q19, but also all the ongoing special projects, such as the expansion projects (organic and via acquisitions) and the payment of interest expenses. However, the Company remains confident in the cash outlook for the second half of the year and reaffirms its guidance of R\$800 million for fiscal year 2019, since: i) virtually all PNLD receivables will be received in the second half; ii) FIES receivables also are concentrated at the end of the year, with the payment for November installment made in December, as has been the case for the last 3 years; and iii) the Company's disbursements were higher in 1H19, given the gains in average payables term in 2018 and the acceleration of Marketing expenses in 1H19, which have short payment terms.

# CAPITAL MARKETS AND SUBSEQUENT EVENTS

## STOCK PERFORMANCE

Kroton stock (KROT3) is a component of several indices, such as the Bovespa Index (Ibovespa), Special Corporate Governance Stock Index (IGC), Special Tag-Along Stock Index (ITAG), Consumption Sector Index (ICON) and MSCI Brazil.

The stock was traded in 100% of trading sessions during 2Q19, registering financial trading volume of R\$7.3 billion and 1,400,442 trades in the period, which represents average daily trading volume of R\$117.5 million. Kroton stock is currently covered by research analysts at 13 different local and international institutions. On June 30, 2019, Kroton's market capitalization was R\$18.0 billion.

In the second quarter of 2019, Kroton's stock price increased 3.5%, while the Bovespa Index (Ibovespa) advanced 5.8%. In the same period, the IGC, ITAG and ICON gained 7.0%, 6.4% and 13.8%, respectively. In the six-month period, Kroton stock price increased 23.7%, while the Ibovespa, IGC, ITAG and ICON gained 14.9%, 15.9%, 15.0% and 21.4%, respectively.

## CREDIT RATINGS

Kroton is currently rated triple A (brAAA) by Standard & Poor's and AA+(bra) by Fitch Rating.

## OWNERSHIP STRUCTURE

Kroton's capital is composed of 1,644,248,206 common shares.

## DIVIDENDS

In the Meeting held on August 14, 2019, the Board of Directors approved the distribution of dividends related to the results for the second quarter of 2019 in the amount of R\$55.1 million, which will be calculated towards the minimum mandatory dividend for 2019 and corresponds to R\$0.0336923704 per common share and to 40% of corporate net income, after deduction of the legal reserve. Shareholders of record at the close of trading on August 20, 2019 are entitled to the dividends.

## ABOUT KROTON EDUCACIONAL

Kroton Educacional S.A. is one of the largest private for-profit educational organizations in the world. Operating for over 50 years, the Company has a nationwide presence in all of Brazil's states. At the end of 2Q19, Kroton had 888,370 students enrolled in its On-Campus and Distance Learning Postsecondary Education programs at its 155 Postsecondary units and its 1,410 Distance Learning centers. It also offers Preparatory Courses under the brand LFG. On October 11, 2018, Kroton concluded the acquisition of Somos Educação, the leading primary and secondary education group in Brazil, making it a complete educational platform with an important presence in all K12 businesses. In Primary & Secondary Education, in 2Q19, the consolidated operation had 35,786 students in 54 own schools, 25,592 students in 125 units of Red Balloon, and 1.3 million students served through approximately 3,961 associated schools using the learning systems, PAR and O Líder em Mim solutions.

## Comments on the behavior of guidance:

In item 11.1 of the Reference Form, the Company gave guidance for the main lines of its P&L statement for 2019, from three perspectives: one considering the results of the operations that used to comprise Somos, acquired in October 2018; one considering the operations of Kroton prior to the acquisition of Somos (and excluding the impacts from the transaction with Somos); and one considering the consolidated company. Below we present how our actual results compare to our projections under these three perspectives.

### Somos Results:

	2019 Consolidated (Guidance)	1Q19 Consolidated (Actual)	2Q19 Consolidated (Actual)	1H19 Consolidated (Actual)
Net Revenue	R\$ 1,933 million	R\$ 515 million	R\$ 328 million	R\$ 843 million
Adjusted EBITDA	R\$ 670 million	R\$ 205 million	R\$ 70 million	R\$ 275 million
Adjusted EBITDA Margin	34.7%	39.9%	21.3%	32.7%
EBITDA <sup>1</sup>	R\$ 621 million	R\$ 192 million	R\$ 51 million	R\$ 243 million
EBITDA Margin	32.1%	37.3%	15.6%	28.9%
Operating Cash Generation After Capex	R\$ 150 million	-R\$ 90 million	R\$ 12 million	-R\$ 77 million
Conversion (with IFRS 16)	24.2%	-46.7%	26.9%	-32.4%
Conversion (without IFRS 16)	28.7%	-53.4%	45.6%	-39.5%

Given the seasonality of the K-12 operations, with sales of services by the Integrated K-12 Platform concentrated in the first and last quarters of the year, 1Q19 made a significant contribution to the Net Revenue and EBITDA projections for the whole of the year, of 27% and 31%, respectively.

In the second quarter, which not only is seasonally the weakest of the year, the seasonality of the repurchase of books under the National Textbook Program (PNLD) shifted in comparison with last year, with 2Q19 accounting for another 17% and 8% of the full-year guidance for Net Revenue and EBITDA, respectively.

Accordingly, in the six months to June, the Company delivered 44% and 39% of its full-year guidance for Net Revenue and EBITDA.

### Kroton Ex-Somos Results:

	2019 Consolidated (Guidance)	1Q19 Consolidated (Actual)	2Q19 Consolidated (Actual)	1H19 Consolidated (Actual)
Net Revenue	R\$ 5,420 million	R\$ 1,322 million	R\$ 1,415 million	R\$ 2,737 million
Adjusted EBITDA	R\$ 2,570 million	R\$ 601 million	R\$ 624 million	R\$ 1,225 million
Adjusted EBITDA Margin	47.4%	45.5%	44.1%	44.8%
EBITDA <sup>1</sup>	R\$ 2,450 million	R\$ 571 million	R\$ 580 million	R\$ 1,151 million
EBITDA Margin	45.2%	43.2%	41.0%	42.0%
Operating Cash Generation After Capex	R\$ 650 million	-R\$ 140 million	R\$ 128 million	-R\$ 12 million
Conversion (with IFRS 16)	26.5%	-24.6%	22.4%	-1.0%
Conversion (without IFRS 16)	31.8%	-30.9%	27.8%	-1.3%

<sup>1</sup> EBITDA considers interest and penalties on tuition and does not consider impact of inventory surplus

The first quarter of the year is marked by the main student-recruiting process, which leads the period to make a large contribution to the annual result. However, over the course of 1H19, some changes in processes intensified the impact (i) from discounts on renegotiations with inactive students; and (ii) from the adjustment to the reduction in classroom hours/students enrolled in the period, causing a higher impact on 1Q19, which was offset in 2Q19. Therefore, in 1Q19, Kroton posted 24% and 23% of its full-year



guidance for Net Revenue and EBITDA, respectively, while 2Q19 concentrated another 26% and 24% of the Net Revenue and EBITDA guidance for 2019.

Accordingly, in the six-month period, the Company achieved 50% and 47% of its full-year guidance for Net Revenue and EBITDA.

#### Kroton Consolidated Results:

	2019 Consolidated (Guidance)	1Q19 Consolidated (Actual)	2Q19 Consolidated (Actual)	1H19 Consolidated (Actual)
Net Revenue	R\$ 7.353 million	R\$ 1.837 million	R\$ 1.742 million	R\$ 3.579 million
Adjusted EBITDA	R\$ 3.240 million	R\$ 807 million	R\$ 694 million	R\$ 1.500 million
Adjusted EBITDA Margin	44.1%	43.9%	39.8%	41.9%
EBITDA <sup>1</sup>	R\$ 3.040 million	R\$ 751 million	R\$ 625 million	R\$ 1.376 million
EBITDA Margin	41.3%	40.9%	35.9%	38.4%
Adjusted Net Income <sup>2</sup>	R\$ 1.348 million	R\$ 319 million	R\$ 267 million	R\$ 585 million
Adjusted Net Margin	18.3%	17.3%	15.3%	16.4%
Operating Cash Generation After Capex	R\$ 800 million	-R\$ 230 million	R\$ 141 million	-R\$ 89 million
Conversion (with IFRS 16)	26.3%	-30.6%	22.6%	-6.5%
Conversion (without IFRS 16)	31.6%	-37.0%	28.8%	-8.0%

<sup>1</sup> EBITDA considers interest and penalties on tuition and does not consider impact of inventory surplus

<sup>2</sup> Adjusted Net Income does not consider impact of inventory surplus and amortization of intangible assets

On a consolidated basis, in 1Q19, the Company delivered 25% and 25% of its Net Revenue and EBITDA guidance, respectively, and in 2Q19 delivered another 24% of Net Revenue and 21% of EBITDA. Accordingly, in the six-month period, Kroton achieved 49% of its Net Revenue, 45% of its EBITDA and 43% of its Adjusted Net Income guidance for the whole of the year.

## 1. DISCLOSURE OF EBITDA

According to CVM Instruction 527/12, the Company adhered to the disclosure of the non-accounting information as additional aggregate information in its quarterly information, presenting the EBITDA – Earnings Before Interest, Taxes on Income including Social Contribution on Profit (Loss) Net, Depreciation and Amortization, for period the three months ended June 30, 2019 and 2018.

Generally speaking, EBITDA represents the Company's operating cash generation, corresponding to the fact that the Company generates resources only in its operating activities, without taking into account the financial and tax effects. It should be noted that this does not represent cash flow for the period presented, and should not be considered obligatorily as a basis for dividend distribution, alternative to net income, or still as an indicator of liquidity.

	Consolidated	
	06/30/2019	06/30/2018
Net income	389,987	942,762
Income and social contribution tax	(74,561)	7,440
	(6,813)	-
Financial result - note 30	328,698	(105,593)
Depreciation - note 29	637,153	205,315
Accounting EBITDA	1,274,464	1,049,924
(+) Interest and penalties on tuition - note 30	94,693	84,340
Management EBITDA	1,369,157	1,134,264
(-) Nonrecurring items (i)	124,786	122,058
Adjusted EBITDA	1,493,943	1,256,322

	Consolidated		
	1S2019	2S2018	LTM
Net income	389,987	450,094	840,081
Income and social contribution tax	(74,561)	(20,907)	(95,468)
	(6,813)	10,891	4,078
Financial result - note 30	328,698	(28,898)	299,800
Depreciation - note 29	637,153	271,463	908,616
Depreciation / Amortization – SOMOS (80 days)	-	131,586	131,586
Accounting EBITDA	1,274,464	814,229	2,088,693
(+) Interest and penalties on tuition - note 30	94,693	118,434	213,127
Management EBITDA	1,369,157	932,663	2,301,820
(-) Nonrecurring items (i)	124,786	290,704	415,490
Adjusted EBITDA	1,493,943	1,223,367	2,717,310

- (i) Pursuant to article 4 of CVM Instruction 527/12, the Company may disclose adjusted EBITDA excluding items contribute to gross cash generation potential. We show in the table below the total value of non-recurring items:

		Consolidated
	06/30/2019	06/30/2018
Termination	52,728	24,349
Restructuring of units	-	20,728
M&A and expansion	72,058	52,120
Others projects	-	24,861
Total Nonrecurring items	124,786	122,058

			Consolidated
	1S2019	1S2018	LTM
Termination	52,728	55,575	108,303
Restructuring of units	-	19,925	19,925
M&A and expansion	72,058	46,106	118,164
Others projects	-	29,312	29,312
Expenses related to Somos acquisition	-	96,245	96,245
Nonrecurring items Somos – 80 days	-	43,541	43,541
Total Nonrecurring items	124,786	290,704	415,490

Highlights include the line of Terminations, especially related to the reduction of the workload generated through initiatives to increase efficiency, such as the operational research software and the model of tutoring in the EAD; and M & A and Expansion, which includes the expenses related to the expansion projects that are accelerating in recent months, notably the acquisition of Somos, the Latu Senso school in Basic Education and a Higher Education unit in João Pessoa. The Company has also carried out a series of projects related to digital transformation and work plans in the different segments that have impacted the line of other projects. In addition, the total number of non-recurring students involves the restructure of presential units, a project in line with the guidelines established in the last strategic planning to ensure a higher level of satisfaction and comfort for students.

**Opinions and representations/Officers' representation on the accounting information**

Pursuant to CVM Instruction 480, dated December 7, 2009, Kroton's Officers state that they have reviewed, discussed, and agreed with the accounting information for the period ended June 30, 2019.

**Opinions and representations / Officers' statement on the independent auditor's review report**

Pursuant to CVM Instruction 480, dated December 7, 2009, Kroton's Officers state that they reviewed, discussed, and agreed with the content of the independent auditor's review report of DELOITTE TOUCHE TOHMATSU Auditores Independentes.