(A free translation of the original in Portuguese)

Kroton Educacional S.A.

Quarterly information - ITR
at September 30, 2018
and report on review of
quarterly information

(A free translation of the original in Portuguese)

Contents

Company information/Capital composition

Number of shares (In thousands)	Current quarter 9/30/2018
Paid-up capital	
Common shares	1,644,248,206
Preferred shares	0
Total	1,644,248,206
Treasury shares	
Common shares	17,221,855
Preferred shares	0
Total	17,221,855

Parent company financial statements/Balance sheet - assets

(R$ thousand)

1 - Code	2 - Description	Current quarter 9/30/2018	Prior year 12/31/2017
1	Total assets	16,682,802	16,190,160
1.01	Current assets	26,670	203,080
1.01.01	Cash and cash equivalents	22,587	200,570
1.01.06	Taxes recoverable	3,831	2,308
1.01.08	Other current assets	252	202
1.01.08.03	Other	252	202
1.01.08.03.01	Advances	0	29
1.01.08.03.02	Other credits	252	173
1.02	Non-current assets	16,656,132	15,987,080
1.02.01	Long-term receivables	44,137	44,862
1.02.01.10	Other non-current assets	44,137	44,862
1.02.01.09.03	Other receivables	351	285
1.02.01.09.04	Guarantees for tax, labor, and civil provisions	43,786	44,577
1.02.02	Investments	16,542,435	15,871,895
1.02.04	Intangible assets	69,560	70,323

Parent company financial statements/Balance sheet - liabilities and equity

(R$ thousand)

1 - Code	2 - Description	Current quarter 9/30/2018	Prior year 12/31/2017
2	Total liabilities and equity	16,682,802	16,190,160
2.01	Current liabilities	47,743	178,870
2.01.01	Social security and labor liabilities	45,693	85,527
2.01.02	Trade payables	424	221
2.01.03	Tax liabilities	1,559	321
2.01.03.01	Federal tax liabilities	1,559	321
2.01.03.01.01	Income tax and social contribution payable	1,291	0
2.01.03.01.02	Taxes payable	268	321
2.01.05	Other liabilities	67	92,801
2.01.05.02	Other	67	92,801
2.01.05.02.04	Dividends payable	0	92,780
2.01.05.02.07	Other accounts payable	67	21
2.02	Non-current liabilities	741,160	803,564
2.02.03	Deferred taxes	675,985	694,320
2.02.04	Provision	65,175	109,244
2.02.04.01	Tax, social security, labor and civil provision	65,175	109,244
2.03	Equity	15,893,899	15,207,726
2.03.01	Paid-up capital	4,425,677	4,363,825
2.03.02	Capital reserves	6,135,766	6,337,176
2.03.02.05	Treasury shares	-224,065	-2,506
2.03.02.07	Other reserves	6,359,831	6,339,682
2.03.04	Revenue reserves	4,041,876	4,506,725
2.03.05	Retained earnings	1,290,580	0

Parent company financial statements/Statement of income

(R$ thousand unless otherwise stated)

1 - Code	2 - Description	Current quarter 7/1/2018 to 9/30/2018	Accumulated - current year 1/1/2018 to 9/30/2018	Same quarter of prior year 7/1/2017 to 9/30/2017	Accumulated - prior year 1/1/2017 to 9/30/2017
3.04	Operating income	342,251	1,269,477	436,951	1,452,350
3.04.02	General and administrative expenses	-12,263	7,550	-31,652	-23,199
3.04.06	Equity in the results of investees	354,514	1,261,927	468,603	1,475,549
3.05	Profit before finance results and taxes	342,251	1,269,477	436,951	1,452,350
3.06	Finance results	513	4,327	1,577	2,424
3.06.01	Finance income	596	4,970	2,403	5,977
3.06.02	Finance costs	-83	-643	-826	-3,553
3.07	Profit before taxation	342,764	1,273,804	438,528	1,454,774
3.08	Income tax and social contribution on net income	5,053	16,776	12,306	36,885
3.08.01	Current	-1,059	-1,559	-339	-1,053
3.08.02	Deferred	6,112	18,335	12,645	37,938
3.09	Net result of continued operations	347,817	1,290,580	450,834	1,491,659
3.11	Profit for the period	347,817	1,290,580	450,834	1,491,659
3.99	Earnings per share - (reais/share)				
3.99.01	Basic earnings per share				
3.99.01.01	Common shares	0.00000	0.79000	0.00000	0.92000
3.99.02	Diluted earnings per share				
3.99.02.01	Common shares	0.00000	0.78000	0.00000	0.91000

Parent company financial statements/Statement of comprehensive income

(R$ thousand)

1 - Code	2 - Description	Current quarter 7/1/2018 to 9/30/2018	Accumulated - current year 1/1/2018 to 9/30/2018	Same quarter of prior year 7/1/2017 to 9/30/2017	Accumulated - prior year 1/1/2017 to 9/30/2017
4.01	Profit for the period	347,817	1,290,580	450,834	1,491,659
4.03	Comprehensive income for the period	347,817	1,290,580	450,834	1,491,659

Parent company financial statements/Statement of cash flows - indirect method

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2018 to 9/30/2018	Accumulated - prior year 1/1/2017 to 9/30/2017
6.01	Net cash provided by operating activities	2,408	391
6.01.01	Cash provided by operations	45,294	61,463
6.01.01.01	Profit before income tax and social contribution	1,273,804	1,454,774
6.01.01.02	Depreciation and amortization	56,218	111,733
6.01.01.03	Provision for tax, labor and civil losses	-43,274	-56,744
6.01.01.04	Options granted	20,473	27,249
6.01.01.06	Equity in the results of investees	-1,261,927	-1,475,549
6.01.02	Changes in assets and liabilities	-42,886	-60,543
6.01.02.01	Increase (decrease) in taxes recoverable	-1,523	80
6.01.02.02	Increase (decrease) in judicial deposits	-66	152
6.01.02.03	Increase (decrease) in prepayments	29	0
6.01.02.04	Increase (decrease) in other assets	-79	-289
6.01.02.05	Increase (decrease) in trade payables	203	-21
6.01.02.06	Increase (decrease) in labor obligations	-39,834	-59,022
6.01.02.07	Increase (decrease) in tax obligations	-321	-1,256
6.01.02.08	Increase (decrease) in the provision for tax, labor, and civil losses	-4	-100
6.01.02.10	Increase (decrease) in other accounts payable	-1,291	-87
6.01.03	Other	0	-529
6.02	Net cash provided by investing activities	536,013	537,827
6.02.03	Capital increase in subsidiaries	-240,002	0
6.02.04	Receipt of dividends of subsidiaries	776,015	537,827
6.03	Net cash (used in) financing activities	-716,404	-415,958
6.03.01	Disposals (acquisitions) of treasury shares	-221,559	14,936
6.03.03	Capital increase, net of issuance costs	-506,697	-521,205
6.03.04	Payment of dividends to stockholders	11,852	90,311
6.05	Increase (decrease) in cash and cash equivalents	-177,983	122,260
6.05.01	Cash and cash equivalents at the beginning of the period	200,570	58,390
6.05.02	Cash and cash equivalents at the end of the period	22,587	180,650

Parent company financial statements/Statement of changes in equity - 1/1/2018 to 9/30/2018

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, share options and treasury shares	Revenue reserves	Retained earnings	Other comprehensive income	Equity
5.01	Opening balances	4,363,825	10,846,407	-2,506	0	0	15,207,726
5.03	Adjusted opening balances	4,363,825	10,846,407	-2,506	0	0	15,207,726
5.04	Equity transactions with stockholders	61,852	-29,851	-221,559	-414,849	0	-604,407
5.04.01	Capital increases	61,852	-50,000	0	0	0	11,852
5.04.03	Options granted	0	20,473	0	0	0	20,473
5.04.04	Treasury shares acquired	0	0	-223,268	0	0	-223,268
5.04.05	Treasury shares sold	0	-324	1,709	0	0	1,385
5.04.06	Dividends	0	0	0	-414,849	0	-414,849
5.05	Total comprehensive income	0	0	0	1,290,580	0	1,290,580
5.05.01	Profit for the period	0	0	0	1,290,580	0	1,290,580
5.07	Closing balances	4,425,677	10,816,556	-224,065	875,731	0	15,893,899

Parent company financial statements/Statement of changes in equity - 1/1/2017 to 9/30/2017

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, share options and treasury shares	Revenue reserves	Retained earnings	Other comprehensive income	Equity
5.01	Opening balances	4,249,901	6,279,511	3,319,952	0	0	13,849,364
5.03	Adjusted opening balances	4,249,901	6,279,511	3,319,952	0	0	13,849,364
5.04	Equity transactions with stockholders	90,311	42,185	0	-431,502	0	-299,006
5.04.01	Capital increases	90,311	0	0	0	0	90,311
5.04.03	Options granted	0	27,249	0	0	0	27,249
5.04.05	Treasury shares sold	0	14,936	0	0	0	14,936
5.04.06	Dividends	0	0	0	-431,502	0	-431,502
5.05	Total comprehensive income	0	0	0	1,491,659	0	1,491,659
5.05.01	Profit for the period	0	0	0	1,491,659	0	1,491,659
5.07	Closing balances	4,340,212	6,321,696	3,319,952	1,060,157	0	15,042,017

Parent company financial statements/Statement of value added

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2018 to 9/30/2018	Accumulated - prior year 1/1/2017 to 9/30/2017
7.02	Inputs acquired from third parties	43,483	56,812
7.02.02	Materials, electricity, third-party services and other	43,483	56,812
7.03	Gross value added	43,483	56,812
7.04	Retentions	-56,218	-111,733
7.04.01	Depreciation, amortization and depletion	-56,218	-111,733
7.05	Net value added produced	-12,735	-54,921
7.06	Value added received through transfer	1,266,897	1,481,526
7.06.01	Equity in the results of investees	1,261,927	1,475,549
7.06.02	Finance income	4,970	5,977
7.07	Total value added to distribute	1,254,162	1,426,605
7.08	Distribution of value added	1,254,162	1,426,605
7.08.01	Personnel	-18,017	-31,773
7.08.01.01	Direct remuneration	-17,324	-32,077
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	-693	304
7.08.02	Taxes, fees, and contributions	-19,044	-36,834
7.08.02.01	Federal	-19,049	-36,838
7.08.02.02	State	5	4
7.08.03	Remuneration of third-party capital	643	3,553
7.08.03.01	Interest	643	3,553
7.08.04	Remuneration of own capital	1,290,580	1,491,659
7.08.04.03	Retained earnings	1,290,580	1,491,659

Consolidated financial statements/Balance sheet - assets

(R$ thousand)

1 - Code	2 - Description	Current quarter 9/30/2018	Prior year 12/31/2017
1	Total assets	24,985,185	18,667,762
1.01	Current assets	8,714,119	3,536,141
1.01.01	Cash and cash equivalents	3,372,164	921,328
1.01.02	Financial investments	3,420,487	805,212
1.01.03	Accounts receivable	1,521,898	1,448,662
1.01.04	Inventories	14,813	11,540
1.01.06	Taxes recoverable	118,661	102,684
1.01.08	Other current assets	266,096	246,715
1.01.08.03	Other	266,096	246,715
1.01.08.03.01	Prepayments	50,756	48,065
1.01.08.03.02	Other accounts receivable	81,255	64,689
1.01.08.03.04	Accounts receivable for sale of subsidiaries	134,085	133,961
1.02	Non-current assets	16,271,066	15,131,621
1.02.01	Long-term receivables	2,409,141	1,901,270
1.02.01.02	Financial investments at fair value through other comprehensive income	1,004	6,729
1.02.01.04	Accounts receivable	635,789	447,809
1.02.01.04.01	Customers	635,789	447,809
1.02.01.07	Deferred taxes	751,397	689,208
1.02.01.10	Other non-current assets	1,020,951	757,524
1.02.01.10.03	Prepayments	1,680	1,680
1.02.01.10.04	Taxes recoverable	5,378	5,303
1.02.01.19.05	Accounts receivable for sale of subsidiaries	483,271	450,014
1.02.01.19.06	Guarantee for social security, labor, and civil provision	375,413	162,222
1.02.01.10.07	Judicial deposits	97,331	71,025
1.02.01.10.08	Other accounts receivable	57,878	67,280
1.02.03	Property and equipment	2,191,281	1,931,462
1.02.04	Intangible assets	11,670,644	11,298,889

Consolidated financial statements/Balance sheet - liabilities and equity

(R$ thousand)

1 - Code	2 - Description	Current quarter 9/30/2018	Prior year 12/31/2017
2	Total liabilities and equity	24,985,185	18,667,762
2.01	Current liabilities	1,194,927	1,345,534
2.01.01	Social security and labor liabilities	383,511	328,429
2.01.02	Trade payables	310,365	314,285
2.01.03	Tax liabilities	131,249	104,583
2.01.03.01	Federal tax liabilities	131,249	104,583
2.01.03.01.01	Income tax and social contribution payable	51,498	32,215
2.01.03.01.02	Taxes payable	71,956	61,756
2.01.03.01.03	Taxes and contributions payable in installments	7,795	10,612
2.01.04	Borrowings	170,401	227,767
2.01.04.01	Borrowings	2,484	3,733
2.01.04.02	Debentures	167,917	224,034
2.01.05	Other liabilities	199,401	370,470
2.01.05.02	Other	199,401	370,470
2.01.05.02.04	Dividends payable	396	92,780
2.01.05.02.05	Accounts payable - acquisitions	129,249	107,907
2.01.05.02.06	Advances from customers	63,224	163,103
2.01.05.02.07	Other accounts payable	6,532	6,680
2.02	Non-current liabilities	7,896,359	2,114,502
2.02.01	Borrowings	5,533,158	76,114
2.02.01.01	Borrowings	31,762	33,614
2.02.01.02	Debentures	5,501,396	42,500
2.02.02	Other liabilities	191,057	78,108
2.02.02.02	Other	191,057	78,108
2.02.02.02.03	Taxes and contributions payable in installments	28,857	37,793
2.02.02.02.04	Accounts payable - acquisitions	143,207	14,879
2.02.02.02.05	Other accounts payable	18,993	25,436
2.02.03	Deferred taxes	1,388,607	1,370,041
2.02.04	Provision	783,537	590,239
2.02.04.01	Tax, social security, labor, and civil provision	783,537	590,239
2.03	Consolidated equity	15,893,899	15,207,726
2.03.01	Paid-up capital	4,425,677	4,363,825
2.03.02	Capital reserves	6,135,766	6,337,176
2.03.02.05	Treasury shares	-224,065	-2,506
2.03.02.07	Capital reserve	6,359,831	6,339,682
2.03.04	Revenue reserves	4,041,876	4,506,725
2.03.05	Retained earnings	1,290,580	0

Consolidated financial statements/Statement of income

(R$ thousand unless otherwise stated)

1 - Code	2 - Description	Current quarter 7/1/2018 to 9/30/2018	Accumulated - current year 1/1/2018 to 9/30/2018	Same quarter of prior year 7/1/2017 to 9/30/2017	Accumulated - prior year 1/1/2017 to 9/30/2017
3.01	Net revenue from sales and services	1,250,098	4,139,696	1,323,546	4,208,059
3.02	Cost of goods and/or services	-555,756	-1,638,684	-513,379	-1,536,938
3.02.01	Cost of sales	-1,826	-17,306	-4,434	-18,548
3.02.02	Cost of services	-553,930	-1,621,378	-508,945	-1,518,390
3.03	Gross profit	694,342	2,501,012	810,167	2,671,121
3.04	Operating expenses	-423,578	-1,385,638	-412,241	-1,314,592
3.04.01	Selling expenses	-244,956	-823,080	-235,684	-750,738
3.04.02	General and administrative expenses	-178,426	-555,835	-199,827	-586,665
3.04.04	Other operating income	0	0	22,900	22,900
3.04.04.02	Result on the sale of FAIR and FAC FAMAT	0	0	22,900	22,900
3.04.05	Other operating income	-196	-6,723	370	-89
3.05	Profit before finance results and taxes	270,764	1,115,374	397,926	1,356,529
3.06	Finance results	93,023	198,616	66,178	177,967
3.06.01	Finance income	163,654	311,122	85,220	251,531
3.06.02	Finance costs	-70,631	-112,506	-19,042	-73,564
3.07	Profit before taxation	363,787	1,313,990	464,104	1,534,496
3.08	Income tax and social contribution on net income	-15,970	-23,410	-13,270	-42,837
3.08.01	Current	-24,947	-67,033	-18,477	-87,508
3.08.02	Deferred	8,977	43,623	5,207	44,671
3.09	Net result of continued operations	347,817	1,290,580	450,834	1,491,659
3.11	Consolidated profit for the period	347,817	1,290,580	450,834	1,491,659
3.11.01	Attributable to the owners of the parent company	347,817	1,290,580	450,834	1,491,659
3.99	Earnings per share (reais/share)				
3.99.01	Basic earnings per share				
3.99.01.01	Common shares	0.00000	0.79000	0.00000	0.92000
3.99.02	Diluted earnings per share				
3.99.02.01	Common shares	0.00000	0.78000	0.00000	0.91000

Consolidated financial statements/Statement of comprehensive income

(R$ thousand)

1 - Code	2 - Description	Current quarter 7/1/2018 to 9/30/2018	Accumulated - current year 1/1/2018 to 9/30/2018	Same quarter of prior year 7/1/2017 to 9/30/2017	Accumulated - prior year 1/1/2017 to 9/30/2017
4.01	Consolidated profit for the period	347,817	1,290,580	450,834	1,491,659
4.03	Consolidated comprehensive income for the period	347,817	1,290,580	450,834	1,491,659
4.03.01	Attributable to the owners of the parent company	347,817	1,290,580	450,834	1,491,659

Consolidated financial statements/Statement of cash flows - indirect method

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2018 to 9/30/2018	Accumulated - prior year 1/1/2017 to 9/30/2017
6.01	Net cash provided by operating activities	1,069,440	1,262,087
6.01.01	Cash provided by operations	1,931,613	2,294,446
6.01.01.01	Profit before income tax and social contribution	1,313,990	1,534,496
6.01.01.02	Depreciation and amortization	318,184	311,062
6.01.01.03	Provision for doubtful accounts	498,674	476,270
6.01.01.04	Provision for tax, labor, and civil losses	-293,190	-65,089
6.01.01.05	Recording (reversal) of provision for inventory losses	133	369
6.01.01.06	Financial charges on borrowings and debentures	63,888	47,227
6.01.01.07	Financial charges on acquisitions	-1,905	2,804
6.01.01.08	Options granted	20,473	27,249
6.01.01.10	Result from the sale or write-off of non-current assets	11,366	-17,042
6.01.01.11	Result on the sale of subsidiaries	0	-22,900
6.01.02	Changes in assets and liabilities	-792,492	-924,489
6.01.02.01	(Increase) in trade receivables	-747,415	-844,565
6.01.02.02	(Increase) decrease in inventories	-3,406	1,482
6.01.02.03	(Increase) decrease in prepayments	-2,320	30,342
6.01.02.04	(Increase) decrease in taxes recoverable	40,792	-32,085
6.01.02.05	(Increase) decrease in judicial deposits	208,581	-23,485
6.01.02.06	(Increase) decrease in other assets	-10,253	-9,748
6.01.02.07	Increase (decrease) in trade payables	-5,965	-4,955
6.01.02.08	Increase (decrease) in labor liabilities	48,213	11,313
6.01.02.09	Increase (decrease) in tax liabilities	-39,726	8,278
6.01.02.10	Increase (decrease) in advances from customers	-106,932	21,667
6.01.02.11	(Decrease) in taxes and contributions payable in installments	-11,753	-5,828
6.01.02.12	(Decrease) in tax, labor, and civil provision	9,243	-71,389
6.01.02.13	Increase (decrease) in other accounts payable	-171,551	-5,516
6.01.03	Other	-69,681	-107,870
6.01.03.01	Income tax and social contribution paid	-56,456	-63,597
6.01.03.02	Interest on borrowings and debentures paid	-13,225	-44,273
6.02	Net cash used in investing activities	-3,251,215	-642,164
6.02.01	Redemption of (investment in) marketable securities	-2,609,519	-224,302
6.02.02	Purchases of property and equipment	-377,205	-247,899
6.02.03	Additions to intangible assets	-190,633	-116,332
6.02.04	Payables for acquisition	-191,848	-41,608
6.02.07	Acquisition of control, net of cash acquired	0	-13
6.02.08	Acquisition of subsidiaries	3,104	-12,010
6.02.09	Accounts receivable from former owners	2,269	0
6.02.10	Acquisition of subsidiaries	112,617	0
6.03	Net cash provided by (used in) financing activities	4,632,611	-548,905
6.03.01	Disposals of treasury shares	11,852	90,311
6.03.02	Capital increase, net of issuance cost	-221,559	14,937
6.03.05	Payment of borrowings	-124,351	-132,948
6.03.06	Payment of dividends to stockholders	-506,697	-521,205
6.03.07	Issue of debentures	5,473,366	0
6.05	Decrease in cash and cash equivalents	2,450,836	71,018
6.05.01	Cash and cash equivalents at the beginning of the period	921,328	940,367
6.05.02	Cash and cash equivalents at the end of the period	3,372,164	1,011,385

Consolidated financial statements/Statement of changes in equity - 1/1/2018 to 9/30/2018

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, share options and treasury shares	Revenue reserves	Retained earnings	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balances	4,363,825	10,846,407	-2,506	0	0	15,207,726	0	15,207,726
5.03	Adjusted opening balances	4,363,825	10,846,407	-2,506	0	0	15,207,726	0	15,207,726
5.04	Equity transactions with stockholders	61,852	-29,851	-221,559	-414,849	0	-604,407	0	-604,407
5.04.01	Capital increases	61,852	-50,000	0	0	0	11,852	0	11,852
5.04.03	Options granted	0	20,473	0	0	0	20,473	0	20,473
5.04.04	Treasury shares acquired	0	0	-223,268	0	0	-223,268	0	-223,268
5.04.05	Treasury shares sold	0	-324	1,709	0	0	1,385	0	1,385
5.04.06	Dividends	0	0	0	-414,849	0	-414,849	0	-414,849
5.05	Total comprehensive income	0	0	0	1,290,580	0	1,290,580	0	1,290,580
5.05.01	Profit for the period	0	0	0	1,290,580	0	1,290,580	0	1,290,580
5.07	Closing balances	4,425,677	10,816,556	-224,065	875,731	0	15,893,899	0	15,893,899

Consolidated financial statements/Statement of changes in equity - 1/1/2017 to 9/30/2017

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, share options and treasury shares	Revenue reserves	Retained earnings	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balances	4,249,901	6,279,511	3,319,952	0	0	13,849,364	0	13,849,364
5.03	Adjusted opening balances	4,249,901	6,279,511	3,319,952	0	0	13,849,364	0	13,849,364
5.04	Equity transactions with stockholders	90,311	42,185	0	-431,502	0	-299,006	0	-299,006
5.04.01	Capital increases	90,311	0	0	0	0	90,311	0	90,311
5.04.03	Options granted	0	27,249	0	0	0	27,249	0	27,249
5.04.05	Treasury shares sold	0	14,936	0	0	0	14,936	0	14,936
5.04.06	Dividends	0	0	0	-431,502	0	-431,502	0	-431,502
5.05	Total comprehensive income	0	0	0	1,491,659	0	1,491,659	0	1,491,659
5.05.01	Profit for the period	0	0	0	1,491,659	0	1,491,659	0	1,491,659
5.07	Closing balances	4,340,212	6,321,696	3,319,952	1,060,157	0	15,042,017	0	15,042,017

Consolidated financial statements/Statement of value added

(R$ thousand)

1 – Code	2 - Description	Accumulated - current year 1/1/2018 to 9/30/2018	Accumulated - prior year 1/1/2017 to 9/30/2017
7.01	Revenue	3,639,497	3,781,819
7.01.01	Revenue from sales of goods and services	4,139,696	4,208,059
7.01.02	Other revenue	-1,525	50,030
7.01.02.01	Result on the sale of subsidiaries / Revenue from sale of subsidiaries	0	41,785
7.01.02.02	Other revenue, net	-1,525	8,245
7.01.04	Provision for doubtful accounts	-498,674	-476,270
7.02	Inputs purchased from third parties	-594,895	-549,687
7.02.01	Cost of sales and services	-17,306	-6,501
7.02.02	Materials, electricity, third-party services and other	-577,589	-534,338
7.02.03	Loss/recovery of assets	0	-8,848
7.03	Gross value added	3,044,602	3,232,132
7.04	Retentions	-318,184	-311,062
7.04.01	Depreciation, amortization and depletion	-318,184	-311,062
7.05	Net value added produced	2,726,418	2,921,070
7.06	Value added received through transfer	311,122	251,531
7.06.02	Finance income	311,122	251,531
7.07	Total value added to distribute	3,037,540	3,172,601
7.08	Distribution of value added	3,037,540	3,172,601
7.08.01	Personnel	1,075,217	1,018,867
7.08.01.01	Direct remuneration	902,787	858,913
7.08.01.02	Benefits	69,728	64,616
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	102,702	95,338
7.08.02	Taxes, fees and contributions	249,996	287,702
7.08.02.01	Federal	225,508	263,704
7.08.02.02	State	248	429
7.08.02.03	Municipal	24,240	23,569
7.08.03	Remuneration of third-party capital	421,747	374,373
7.08.03.01	Interest	112,506	73,564
7.08.03.02	Rentals	315,365	297,116
7.08.03.03	Other	-6,124	3,693
7.08.04	Remuneration of own capital	1,290,580	1,491,659
7.08.04.03	Retained earnings	1,290,580	1,491,659

Comments on company performance

Belo Horizonte, November 9, 2018, Kroton Educacional S.A. (B3: KROT3; OTCQX: KROTY) – "Kroton" or "Company," announces today its results for the third quarter of 2018 (3Q18). 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) which conforms to International Financial Reporting Standards (IFRS), unless stated otherwise.

MESSAGE FROM MANAGEMENT

In 1966, Kroton was established as a preparatory course for college admission exams, which then became a school and has served as the foundation for the pioneering development of a learning system concept for Primary and Secondary Education in Brazil. From the 1960s to the 2000s, Kroton operated exclusively in the Primary & Secondary Education segment. The conclusion of the Somos acquisition, in October, represents a return to its roots, to the fundamental essence reinforcing the sense of purpose of the transformational capacity witnessed in Education. This purchase combination provides us with a sense of great satisfaction and immense pride.

With Somos, we now offer Brazilians across the country a robust platform with relevant high-quality operations spanning the entire educational cycle, from Pre-School, Primary Education and Secondary Education to On-Campus and Distance-Learning Undergraduate Education, to Master's and Doctoral degrees. We have taken many strategic steps over the last ten years. In 2010, the acquisition of IUNI enabled the turnaround required to implement a new academic and management model at the Company. In 2012, we made an important strategic decision: to put our trust and belief in the impact of digital transformation in undergraduate education and to acquire Brazil's largest and best distance-learning institution, Unopar. The past years have been witness to the enormous positive impact of this strategic step for our organization. In 2014, we made another important move, this time acquiring Anhanguera, which bolstered the growth and quality improvements in all our official indicators.

The acquisition of Somos, concluded in 2018, is much like the one made in 2012. The Somos transaction was not a mere acquisition, but also a conscientious decision to follow a strategic path. After evaluating the Primary and Secondary Education market for over one year, we concluded that the opportunities were enormous and that we should, as we did in 2012, tap this market by bringing into the group Brazil's largest and best platform. The more we learn about Somos, the more certain we are that we took the right decision.

With Somos, we now offer a complete and integrated portfolio of educational solutions that include high-quality products and services in all segments of Primary & Secondary Education. We offer content solutions from notable authors and high-quality teachers, and always strive to build long-term relationships with our partner schools. Our brands are recognized, are references in their regions and we present a nationwide footprint. We offer technological platforms to support teaching, student engagement, teacher development and educational advisory services. We also have an enormous capacity to generate and analyze data ('big data'), which produces intelligence for identifying and capturing opportunities for expanding our operations and improving our academic quality. Our brand equity surveys show that no other entity has brands as strong as ours. No other network of partners is as solid as ours; we are confident that these differentiating factors will be further reinforced in this new phase.

Comments on company performance

The challenge is significant, but we are certain that we are on the right path to continue improving our quality indicators, reputation, growth and efficiency. These attributes will ensure the sustainability of our company and will continue to permeate all of our actions.

To ensure that all opportunities from this union of forces will be identified and captured, we have, implemented a robust integration methodology with clear activities, detailed timetables and a transparent and objective monitoring system. We are aware that each integration process is unique, though Kroton's track record in integrating large assets has been a fundamental part of the process.

In 2019, we will conduct a strategic planning process to advance discussions. During these initial months of planning and the first weeks of integration, we have already formulated a robust strategic vision and identified very clear opportunities for the future. Our new future with Somos will be presented to the market on Kroton Day on November 26. Presently, we are confident that, the deeper we go the more excited and optimistic we are as to the prospects we envision for the company.

In closing, we highlight an important aspect regarding these first few weeks of integration. We know that a company relies, above all, on its people, and we are most impressed by the Somos team and their technical quality, engagement and sense of purpose. We take this opportunity to express our appreciation to the employees of Somos, those directly involved in the integration process, as well as those conducting its operations. We am certain that, together, we will create a stronger company with a focus on a unique reinforced culture, with ever-higher standards of quality and better prepared to foster sustainable value.

OPERATING PERFORMANCE

POSTSECONDARY EDUCATION

Evolution in Number of Students

Consistent with the trends observed at the beginning of the year, the Undergraduate student admittance and reenrolling process for the second semester was concluded with very solid results, especially given all the pressures from the uncertain political environment, and still-stagnant economy, with its high unemployment rates and competitive challenges. Nevertheless, Kroton was able to grow the number of freshmen students in both the On-Campus and Distance Learning segments, which attests to the effectiveness of its commercial strategy, the strength of its brands and a program portfolio aligned with market demands. Moreover, this good performance was achieved despite the already expected reduction in the offering of FIES student financing, which confirms the resilience of the Company's business. Other factors contributing to this result included the balanced offering of installment plans, in addition to a robust employability channel, with the latter proving an important advantage and significant transformational agent for students.

Comments on company performance

Overall, some 183,300 new Undergraduate students were enrolled or 2.1% more than in the same period in 2017. This result was influenced by (i) the new programs being launched in both the On-Campus (particularly in the health and engineering fields) and Premium DL segments, which have helped to expand the product offering and addressable market; (ii) the offering of installment plans, including the Private Special Installment Plan (PEP) and Late-Enrollment Installment Program (PMT), are considered efficient student-recruiting tools; (iii) a good performance of new students paying out of pocket, which currently account for a majority of freshmen; and (iv) the new campuses and centers opened in recent months, which, despite their low impact in the first student-recruiting processes, will be important drivers for future growth.

The re-enrollment process (enrollments of students in the second to last academic semesters) performed very well considering the market conditions in the period, registering a decline of 4.7% from the same period last year, a lower level compared to the increase in graduations this semester (+8.3% compared to 3Q17). This pressure from graduations reflects the strong 2013 / 2014 student recruitment processes; these effects will tail-off in the upcoming re-enrollment processes.

Looking only at Graduate programs, the student base expanded 9.0% on a year-to-year basis, supported by the enrollment of some 10,000 new students mainly from Distance Learning programs. The performance more than offset the significant number of graduations, which totaled approximately 6,000 students. Bear in mind that the LFG brand also offers Graduate programs.

Accordingly, the Company ended the quarter with roughly 910,000 Postsecondary students (Undergraduate and Graduate) in the On-Campus and Distance Learning segments combined, representing a slight reduction of 2.4% from the same period last year, demonstrating the resilience of Kroton's operations in a still-adverse scenario of increased competition, economic uncertainty and a higher number of graduations. Compared to 2Q18, the student base contracted by 2.9%, which is in line with the smaller base of students eligible for re-enrollment. Broken down by teaching format, the On-Campus student base accounted for 42% of the total student base in the quarter, while the Distance Learning student base accounted for 58%.

Note that the student recruitment and reenrollment processes for the first semester of 2019 has already begun and that Kroton continues to focus on constantly evolving its Student Success projects, while reinforcing its organic growth strategies by opening new On-Campus units and new Distance Learning centers, as well as strengthening its commercial strategies to deliver growing results in student recruiting and retention.

Undergraduate Dropout Rates

The dropout rate in the On-Campus segment improved by 0.7 p.p., reversing the increase in the prior quarter. Despite the continued pressures on this indicator, such as the change in the student base profile (lower share of FIES students, which historically are less likely to drop out) and the persistently high unemployment rate in a turbulent political/economic scenario, this is the second straight semester in which the Company managed to deliver a reduction in the dropout rate. This simply attests that the initiatives under the Retention Project continue to advance, with the teams gaining maturity and experience and gradual enhancements being made to the academic model. In this respect, if we exclude FIES students from the indicator, a stronger trends of improvement can be noted in dropout rates among other student groups. Another important factor is the attention Kroton has been giving to the student satisfaction index, investing significantly in the Company's units and in managing students to ensure an increasingly improved experience.

Comments on company performance

In the Distance Learning format, in addition to the macroeconomic environment, the higher dropout rate is due to the accelerated growth observed in recent student recruiting processes, given that students in the first few semesters of programs have a higher propensity to drop out. Moreover, the higher number of students in the 100% online format also contributed to a weakening of this indicator, since the lower student engagement results in higher dropout rates for this product compared to other Distance Learning formats.

FIES

At the end of 3Q18, the Company had 88,052 students enrolled with FIES contracts, down 40.6% from the same period of 2017, following the trend of recent quarters, with increasingly fewer new students under financing programs and higher graduation rates of these students. This is reflected in the latest student-recruiting cycle, whereby FIES accounted for less than 3% of new enrollments in On-Campus Undergraduate programs and only 1% of total Undergraduate new enrollments. Moreover, the number of graduations of FIES students at the end of the semester was significant, which indicates that the program should account for a marginal share of students over the coming years. As a result, FIES students accounted for 23.8% of the On-Campus Undergraduate base, or 10.1% of the total Undergraduate student base, down 13.3 p.p. and 6.3 p.p., respectively, on the prior-year period.

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

At the end of 3Q18, Kroton had some 61,000 students enrolled in PEP programs, of whom around 37,600 enrolled in PEP30 and almost 23,400 in PEP50. In the most recent student recruitment process, approximately 15,800 new students were enrolled with one of the two PEP plans (PEP30 and PEP50), representing roughly 23% of On-Campus new enrollments. Although higher than in the second semester of last year, the level is in line with the enrollment observed at the start of the year and with the Company's expected exposure in the coming cycles.

Note that Kroton continues to adopt the same conservative policies as it did in previous quarters for revenue recognition, including the calculation of the Adjustment to Present Value (APV) of revenue and from bad debt provisioning, which is recorded at 50% of the financed portion for all PEP students.

Meanwhile, PMT (or temporary PEP) is an alternative for the payment in installments of monthly tuitions related exclusively to periods during which new students have not yet been 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. Therefore, 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 for PEP and PMT, whereby revenues are adjusted to present value and provisions for bad debt are recorded at 50% of the amounts financed. Furthermore, similar to the PEP policy, the outstanding tuition balance falls due automatically if the student drops out before graduation.

Comments on company performance

Preparatory Courses (LFG), Unregulated Programs and Language Courses

Through the brand LFG, the Company offers preparatory courses for the examination of the Brazilian Bar Association (OAB) and for examinations for civil servant positions. LFG is positioned as a reference for preparatory courses, registering an average student base of 27,512 in 3Q18, an expansion of 8.4% compared to the same period in 2017, reflecting the efforts to improve the operation since the start of the year.

Kroton also offers short-duration open enrollment programs that allow students to increase their knowledge in various fields, such as Management, Education, Mathematics and Languages. In 3Q18, there were 53,333 students enrolled in these programs, down 16.0% from the previous year.

PRIMARY & SECONDARY EDUCATION

As part of the Company's expansion strategy, already disclosed to the market, Kroton created "Saber," a *holding* company dedicated exclusively to the Primary & Secondary Education market. Saber uses the Pitágoras Network, which offers Learning Systems, including textbook collections, teacher training, educational assessments and other services offered to private schools in the Pre-School, Primary & Secondary Education. These comprise 687 Associated Schools and approximately 227,000 students in the private sector, which represent increases of 2.2% and 3.1% compared to last year, respectively. The Leonardo Da Vinci Educational Center, acquired in April, serves a total of 1,311 students (as of December 2017), 71% of whom under a full-time scheme.

In September, Saber also concluded its third acquisition, of Colégio Lato Sensu, an institution founded in 1984 and operating in the pre-school, primary and secondary education segments. Colégio Lato Sensu, which features a unique educational proposition with a focus on academic quality (a top performer in the region on the ENEM exam), has five units, four of which in Manaus, Amazonas, and one in Rio Branco, Acre, serving a total of 3,806 students in 2018. Although the acquisition was concluded in mid-September, the results have not impact the Primary & Secondary Education segment, as only the opening balance was recognized on the balance sheet.

As of October 11, 2018, Saber also began to consolidate Somos' business, which include schools, learning systems, textbooks, digital content, language courses and other businesses. With this, Saber offers a complete platform solution, products and services to Brazil's entire Primary & Secondary Education segment, serving some 37,000 students through own schools (numbers relate to 2017), 25,000 students in language courses and 1.2 million students in partner private schools, as well as reaching more than 33 million students in public schools through the National Textbook Program (PNLD).

Saber has also unified an important community of teachers who use its products and services in Brazil, with approximately 85,000 professionals working in private schools and 1.7 million teachers in public schools. Saber will be responsible for renowned teaching institutions, learning systems and publishing houses, such as Pitágoras, PH, Anglo, Leonardo da Vinci, Red Balloon, and for the publishing houses Ática, Scipione and Saraiva, among others, with presence throughout all Brazilian states.

Comments on company performance

Because the transaction with Somos was consummated in October, the opening balance will be recorded in 4Q18 with the combination of the businesses.

FINANCIAL PERFORMANCE

Revenue and Deductions

Deductions

In 3Q18, deductions corresponded to 25.1% of gross revenue, an increase of 2.1 p.p. compared to the same period last year, influenced by the higher base of ProUni students at the start of the year, the higher volume of discounts granted in renegotiations with former students and the increase in returns in the Primary & Secondary Education segment, given the still-challenging economic scenario, as well as the increase in the line taxes in the segment due to the recent acquisitions of own schools. As a result, in the first nine months to September, deductions were 24.2% of gross revenue, increasing 2.2 p.p. compared to last year.

Net Revenue

Net Revenue amounted to R$1,250.1 million, down 5.5% from 3Q17, reflecting the lower base of On-Campus students, which in turn is explained by the higher number of students graduating in the period and the asset divestments in late 2017,. Additionally, the lower average ticket in both postsecondary education segments (On-Campus and Distance Learning), given the higher number of students enrolled in 100%-online programs contributed to the decline as did the reduced offering of Late-Enrollment Installment (PMT) student-financing plans and higher competition, especially in the DL segment, following the regulatory framework announced in 2017, as also the still-challenging macroeconomic scenario, marked by high unemployment. These factors were partially offset by the strong student recruitment process in both the On-Campus and Distance Learning segments, which was leveraged by the initial benefits from the new units and centers opened this year, the lower dropout rates in the On-Campus education segment and the consolidation of the results from the Company's first acquisition in the premium Primary & Secondary Education segment, Centro Educacional Leonardo da Vinci. In 9M18, Net Revenue amounted to R$4,139.7 million, down 1.6% from the year-ago period.

Costs

In 3Q18, cost of goods and services corresponded to 44.5% of net revenue, increasing 5.6 p.p. compared to last year, mainly due to the costs involved in the Company's growth projects, supporting the opening of 15 new units this semester, in addition to the 10 units opened at the beginning of the year. Moreover, the merger of Centro Educacional Leonardo da Vinci led to higher costs in various lines in the Primary & Secondary Education segment, such as faculty and rent. Notwithstanding, the Company continued to implement efficiency projects, such as the operational research (OR) software, negotiations under the Strategic Sourcing Project, the capture of economies of scale in the DL segment and the optimization of the online tutoring process, among other levers, which mitigated the non-recurring pressures on costs. Furthermore, the expansion in the base of 100%-online students also had a positive impact on faculty costs, since their cost structure is lower compared to the traditional once a week model. As a result, in 9M18, cost of products and services corresponded to 39.6% of net revenue, up 3.1 p.p. from 9M17.

Comments on company performance

Gross Income

In 3Q18, gross income amounted to R$694.3 million, with gross margin of 55.5%, down 14.3% and 5.7 p.p. respectively, from the year-ago period, reflecting the impacts described above. In 9M18, gross income was R$2,501.0 million, down 6.4%, with gross margin of 60.4%, down 3.1 p.p. both compared to the first nine months of 2017.

Operating Expenses

Selling Expenses

Selling expenses include expenses with the sales team, advertising and marketing, copyrights and Provision for Doubtful Accounts (PDA). In 3Q18, these expenses corresponded to 19.6% of net revenue, increasing 1.8 p.p. from 3Q17, mainly due to higher marketing expenses, which reflect the student recruitment campaign for 1H19 in the context of higher competition in both the On-Campus and Distance Learning segments, including the promotion of our brands in new regions. As a result, in 9M18, selling expenses corresponded to 19.9% of net revenue, up 2.0 p.p. from 9M17.

General and Administrative Expenses

General and administrative expenses include administrative personnel, consulting services, travel, outsourcing expenses and others. In 3Q18, this group of expenses corresponded to 14.3% of net revenue, improving 0.8 p.p. compared to the same period last year, which reflected the Company's efforts to control operating expenses and increase operating efficiency. In 9M18, general and administrative expenses corresponded to 13.4% of net revenue, down 0.5 p.p. compared to the same period last year.

Other Operating Income (Expenses)

Other operating expenses amounted to R$0.2 million in 3Q18, compared to other operating income of R$23.2 million in 3Q17. In 9M18, other operating expenses amounted to R$6.7 million, or 0.2% of net revenue, compared to other operating income of R$22.8 million in 9M17, or 0.5% of net revenue in that period.

Financial Result

In 3Q18, financial income was R$163.5 million, an increase of 92.0% quarter-on-quarter, reflecting the higher cash balance in the period, which is explained by the receipt of 50% of the outstanding FIES installments under PN23, and by the first debenture issue by the holding company Saber of R$5.5 billion. As a result, net financial income amounted to R$93.0 million, or 7.4% of net revenue, increasing 40.6% and 2.4 p.p. from the net financial income of R$66.2 million recorded in 3Q17. In 9M18, net financial income was R$198.6 million, or 4.8% of net revenue, growing 11.6% and 0.6 p.p. compared to 9M17.

Comments on company performance

Net Income (Loss)

In 3Q18, net income amounted to R$347.8 million, with net margin of 27.8%, representing decreases of 22.9% and 6.2 p.p., respectively, on the prior-year period. The factors behind this performance include the asset divestments at the end of last year and the higher levels of depreciation from investments in the production of content and technology, which have shorter useful lives. These effects, combined with operational pressures, especially the change in the student profile, the still-challenged economic environment and higher competition, mitigated the efforts to increase the Company's efficiency through increased austerity over management costs and expenses. As a result, in the nine months to September, net income amounted to R$1,290.6 million, with a net margin of 31.2%, down 13.5% and 4.3 p.p. from 9M17.

Investments

In 3Q18, Kroton invested R$121.0 million, allocated as follows:

- Information technology and library equipment: R$12.4 million (10%);
- Content and systems development and software licenses: R$46.8 million (39%);
- Laboratory and related equipment: R$19.0 million (16%);
- Expansions – construction and improvements: R$42.8 million (35%).

In 3Q18, investments corresponded to 9.7% as a ratio of net revenue, most of which was allocated to content development, systems and software licenses, which accounted for 39% of the total amount and accompanied the expansion of Kroton's portfolio in recent years, especially with the addition of new Premium DL programs. Expansion projects were also a significant an expenditure in renovations and improvements of 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 nine months to September, Capex amounted to R$330.1 million, which corresponds to 8.0% of the Company's net revenue in the period.

Kroton also invests in special projects related to the expansion of physical units and to the implementation of new units, as well as in projects related to the Company's ongoing digital transformation. These investments amounted to R$72.1 million in 3Q18 and to R$140.5 million in 9M18. Therefore, total investment as a ratio of net revenue stood at 18.3% in the quarter and 11.4% in 9M18. Despite the higher investments this quarter, the amount invested in the first nine months was is in line with the guidance of 13.5% of net revenue and consistent with the strategy to accelerate expansion projects and focus on students.

Net Debt

At the end of 3Q18, total cash and financial investments stood at R$6.8 billion, which is considerably higher than in the prior quarter, reflecting the capital raised through the debenture issue for the Somos acquisition. This cash, however, was held only temporarily, since most of it was used to pay the controlling shareholders of Somos on October 11, the transaction's settlement date. This situation, coupled with the income earned on financial investments, offset the disbursements made throughout the quarter related to the distribution of dividends for 2Q18, the repayment of a portion of the Company's existing debentures in the amount of R$50.0 million (R$52.1 million including interest and charges), and the disbursements for the acquisitions of assets in the Postsecondary and Primary & Secondary Education segments. Consequently, and

Comments on company performance

including the capital raised through debt, net cash and equivalents ended 3Q18 at R$1.1 billion, increasing 21.2% from the end of the prior quarter, which also attests to the solid cash generation in the period, which was positively impacted from the receipt of the last FIES installment under PN23. 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 cash of R$781.0 million. Total long-term obligations include amounts related to installment payments for acquisitions, especially those for Uniasselvi, which are being made in six annual installments since 2013. 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 4 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 cash balance would be even more robust, surpassing R$1.4 billion. As explained previously, the result in the fourth quarter should present a reversal of the cash position, since the Company should present a net debt position after making the payment to the controlling shareholders of Somos. However, the net debt/EBITDA ratio should remain at levels considered adequate and in compliance with the financial covenants agreed upon with debenture holders.

Cash Flow

The Company's Free Cash Flow arise 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.

Accordingly, operating cash flow before Capex amounted to R$659.3 million in 3Q18, which is 32.4% higher than the amount reported in 3Q17, mainly due to the payment by the federal government of the last outstanding installment (50% of the balance not received in 2015) of FIES related to PN23. Considering the disbursements for Capex, operating cash flow was R$538.3 million in 3Q18. Including also Capex and special projects, operating cash generation amounted to R$466.2 million, a very solid level that surpasses the amounts received under PN23 and confirms the resilience of the Company in generating strong results despite all pressures from the changing student profile and the costs with offering installment payment products to self-funding students. Free cash flow was positive by R$5.7 billion, a result that should be considered nonrecurring, given the funding activities involving a debenture issue for the Somos acquisition.

Operating cash flow after Capex corresponded to 114.2% of EBITDA in 3Q18. In the nine months to September, operating cash generation after Capex corresponded to 45.5% of EBITDA, a very solid performance that attests to the robust nature of the Company's operations and signals a return to a normal cash conversion cycle following the issues involving PN23.

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 all trading sessions during the quarter, registering a financial trading volume of R$5.3 billion and 1,128,805 trades in the period, which represents an average daily trading volume of R$84.4 million. Kroton stock is currently covered by research analysts with 11 different local and international institutions. At September 30, 2018, Kroton's market capitalization was R$18.7 billion.

In the third quarter of 2018, Kroton's stock price increased by 22.3%, while the Bovespa Index (Ibovespa) advanced 9.0%. In the same period, the IGC ITAG and ICON gained 8.5%, 9.3% and 1.8%, respectively. In 9M18, Kroton's stock had lost 38.0% and registered an average daily trading volume of R$125.8 million. In the same period, the Ibovespa gained 3.8%, while the IGC and ICON decreased 0.6% and 16.8%, respectively, and the ITAG gained 0.3%.

SHARE BUYBACK PROGRAM

On June 28, 2017, the Company approved its 6th share buyback program, which will be valid for 18 months and authorizes the acquisition of up to 48,773,702 shares, which corresponds to 3% of the free-float on said date. There were no share repurchases by the Company in 3Q18. However, since the launch of the program 17,412,500 common shares issued by the Company were repurchased at an average price of R$12.61 per share. This number of shares represents 35.7% of the limit established by the program.

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 a meeting held on November 9, 2018, the Board of Directors approved the distribution of dividends related to the results for the third quarter of 2018 in the amount of R$132.2 million, which will be calculated towards the minimum mandatory dividend for 2018 and corresponds to R$0.0812253955 per common share and to 40% of adjusted net income, after deduction of the legal reserve. Shareholders of record at the close of trading on November 16, 2018 are entitled to the dividends.

ABOUT KROTON EDUCACIONAL

Comments on company performance

Kroton Educacional S.A. is one of the largest private for-profit educational organizations in the world. Having operated for over 50 years, the Company has a nationwide presence throughout all of Brazil's states. At the end of 3Q18, Kroton had 910,000 students enrolled in its On-Campus and Distance Learning Postsecondary Education programs at its 143 Postsecondary units and its 1,310 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, consolidating a complete educational platform with a significant presence across all segments. In the Primary & Secondary Education sector, on a consolidated basis, the operation has 33,000 students distributed across 46 own schools, 28,000 students distributed at 133 Red Balloon units and 1.4 million students served through approximately 4,000 associated schools using the PAR and O Líder em Mim learning systems.

1. GENERAL INFORMATION

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

The Group comprises 34 companies, including Kroton Educacional S.A., of which 15 operate higher education institutions, being: four constituted as a corporation, and comprising 157 Higher education units, present in 15 Brazilian states and 74 cities, in addition to 1,180 Distance-Learning Graduation Centers, accredited by the Ministry of Education and Culture (MEC), located in all the Brazilian states and the Federal District. The Company also includes more than 870 associated Basic Education schools throughout Brazil.

The Company is listed on B3 - Brasil, Bolsa, Balcão, in the special segment known as the New Market, under the ticker symbol KROT3, where its common shares are traded.

The issue of the parent company and consolidated interim accounting information was approved by the Board of Directors on November 9, 2018.

1.1. ACQUISITION OF SUBSIDIARIES

The Company through its subsidiaries Saber Serviços Educacionais Ltda. (“SABER”) and Anhanguera Educacional Participações S.A. (“AESAPAR”) acquired in 2018 the following companies:

<u>FATECI</u>

On March 7, 2018, the Company through its subsidiary AESAPAR concluded the acquisition of 100% of the capital of Fateci Cursos Técnicos S/S ("FATECI") and of Clauder Ciarlini Filho S/S (“CLAUDER”). The purchase consideration was R$ 16,450, of which R$ 8,100 to be paid in a lump sum and R$ 8,350 to be paid in five equal installments with maturity date in 2023.

Leonardo da Vinci

On April 10, 2018, the Company through its subsidiary Saber concluded the acquisition of 100% of the capital of Centro Educacional Leonardo da Vinci S/S Ltda. ("CELV") and of Vinci Serviços Educacionais Ltda. ("DA VINCI"). The main purpose of this acquisition is to foster the Company's expansion plan in the basic education area via renowned prime companies in the teaching industry.

FEBAC

On July 3, 2018, the Company through its subsidiary AESAPAR concluded the acquisition of 100% of the capital of Bacabal Mearim Sistemas de Ensino Ltda. (“FEBAC”). The purchase consideration was R$ 12,974, of which R$ 5,190 paid in a lump sum and R$ 7,784 to be paid in five annual installments.

SEPA

On September 4, 2018, the Company through its subsidiary AESAPAR concluded the acquisition of 100% of the capital of Sociedade Educacional da Paraíba Ltda. (“SEPA”). The main purpose of this acquisition is to promote the Company's expansion plan in the basic education area via renowned prime companies in the teaching industry. The purchase consideration was R$ 6,000, of which R$ 4,200 paid in a lump sum and the remaining amount to be paid in three equal installments of R$ 600 with maturities in September 2019, 2020 and 2021.

Colégio Lato Sensu

On September 24, 2018, the Company through its subsidiary SABER concluded the acquisition of 100% of the capital of Núcleo Brasileiro de Estudos Avançados Ltda. (“Lato Sensu”), Colégio Manauara Latu Sensu Ltda. (“Manauara”), Sanches Serviços de Educação Ltda. (“Leal Sanches”) and Centro de Educação do Norte do Brasil. (“Lato Sensu II”). The main purpose of this acquisition is to foster the Company's expansion plan in the basic education area via renowned prime companies in the teaching industry. The purchase consideration was R$ 124,000, of which R$ 50,200 paid in a lump sum and the remaining amount to be paid in three equal installments of R$ 15,300 with maturities in September 2019, 2020 and 2021, two equal installments of R$ 13,950 with maturities in September 2022 and 2023 and R$ 1,500 as additional price, at a variable amount to be calculated based on financial and operational targets previously established in the agreement.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE PARENT COMPANY AND CONSOLIDATED INTERIM ACCOUNTING INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2018
(All amounts in thousands of reais unless otherwise stated)

Presented below is a summary of the main balance sheet account groups of the acquired companies, at the date of acquisition, detailing interim accounting information for the period ended September 30, 2018.

	FATECI (i)	Leonardo da Vinci (ii)	FEBAC	SEPA	Colégio Lato Sensu (iii)
Acquisition date	3/7/2018	4/10/2018	7/3/2018	9/4/2018	9/24/2018
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	336	616	27	3	1,287
Accounts receivable	2,511	1,359	1,227	548	6,830
Advances	59	127	81	68	36
Taxes recoverable	-	6	-	-	382
Total current assets	2,906	2,108	1,335	619	8,535
NON-CURRENT ASSETS					
Marketable securities	31	-	-	-	-
Guarantees for tax, labor and civil losses	19	178,800	15,585	-	-
Judicial deposits	8,874	676	-	-	-
Other accounts receivable	-	-	-	15	-
Property and equipment	845	2,747	1,293	5,643	1,914
Intangible assets	-	70	13	46	32
Total non-current assets	9,769	182,293	16,891	5,704	1,946
TOTAL ASSETS	12,675	184,401	18,226	6,323	10,481

	FATECI (i)	Leonardo da Vinci (ii)	FEBAC	SEPA	Colégio Lato Sensu (iii)
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Accounts payable	193	219	56	114	1,463
Salaries and payroll charges	741	2,015	1,043	389	2,681
Tax obligations	109	1,258	259	18	532
Advances from customers	-	6,237	641	129	46
Other payables	-	-	-	-	128
Total current liabilities	1,043	9,729	1,999	650	4,850
NON-CURRENT LIABILITIES					
Provision for tax, labor and civil losses	40,070	252,855	31,696	24	-
Other payables	-	1,807	-	-	-
Total non-current liabilities	40,070	254,662	31,696	24	-
TOTAL LIABILITIES	41,113	264,391	33,695	674	4,850

(All amounts in thousands of reais unless otherwise stated)

	FATECI (i)	Leonardo da Vinci (ii)	FEBAC	SEPA	Colégio Lato Sensu (iii)
EQUITY	(28,438)	(79,990)	(15,469)	5,649	5,631
TOTAL LIABILITIES AND EQUITY	12,675	184,401	18,226	6,323	10,481
Liabilities, net	28,438	79,990	15,469	(5,649)	(5,631)
Purchase price	16,450	120,000	12,974	6,000	124,000
Adjustment to present value	(195)	-	(1,008)	(146)	(9,839)
Surplus of the purchase price over the fair value preliminarily classified as goodwill	44,693	199,990	27,435	205	108,530

(i) Combined balances of FATECI and CLAUDER
(ii) Combined balances of CEL and DA VINCI
(iii) Combined balances of Lato Sensu, Manauara, Leal Sanches and Lato Sensu II

In the context of the acquisitions concluded during the nine months of 2018, a comparison of the Group's consolidated interim accounting information at September 30, 2018 with that for the year ended December 31, 2017 should take into account consider the balance sheets of the acquired companies.

1.2. Restatement of comparative figures

The consolidated comparative figures at December 31, 2017 are being restated for comparison purposes due to the reclassification of the goodwill arising from the acquisition of Colégio Cidade Jardim, which was previously merged into SABER in the amount of R$ 6,889, as follows:

	Original	Adjustment	Restated
Balance sheet			
Non-current assets	15,987,080	-	15,987,080
Investment	15,878,784	(6,889)	15,871,895
Intangible assets	63,434	6,889	70,323
Total assets	16,190,160	-	16,190,160

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING PRACTICES

The Company presents its parent company and consolidated quarterly information in accordance with the accounting standard CPC 21, Interim Financial Reporting, issued by the Brazilian Accounting Pronouncements Committee ("CPC"), and with IAS 34, Interim Financial Reporting, issued by the International Accounting Standards Board ("IASB"), as well as the regulations issued by the Brazilian Securities Commission ("CVM").

Management has evaluated the significance of disclosures and determined not to re-present the following notes:

- Summary of significant accounting policies:
- Accounting estimates and judgments;
- Insurance.

The notes presented herein provide a complete basis to understand the quarterly information if read in conjunction with the explanatory notes in the financial statements at December 31, 2017.

The accounting policies used in the preparation of this quarterly information are consistent with those disclosed in Note 2 to the financial statements for the year ended December 31, 2017, except for the update of the accounting policies on the adoption of IFRS 9 / CPC 48 - Financial Instruments and IFRS 15 / CPC 47 - Revenue from Contracts with Customers, which were adopted by the Company as of January 1, 2018, as follows:

<u>IFRS 9 - Financial Instruments</u>

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities and certain purchase and sale agreements of non-financial items. The main IFRS 9 changes consist of the new criteria for the classification of financial assets under three categories:

(i) Classification and measurement of financial assets and liabilities

In accordance with IFRS 9 / CPC 48, a financial asset is classified as: at amortized cost; at fair value through other comprehensive income (FVTOCI) - debt instrument or equity instrument; and at fair value through profit or loss (FVTPL). The classification of financial assets in accordance with IFRS 9 / CPC 48 is mainly determined based on the business model in which a financial asset is managed and on its contractual cash flow characteristics. The new significant accounting policies are described below:

Financial assets at amortized cost - These assets are subsequently measured at amortized cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and other losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

A financial asset is measured at amortized cost if it meets both the following conditions and is not designated as measured at FVTPL:

• is held within a business model whose objective is to hold financial assets to receive contractual cash flows; and
• its contractual terms generate, on specific dates, cash flows that are related to the payment of principal and interest on the principal amount outstanding. A debt instrument is measured at FVTOCI if it meets both the following conditions and is not designated as measured at FVTPL:
• is held within a business model whose objective is achieved by either receiving contractual cash flows as by the sale of financial assets; and
• its contractual terms generate, on specific dates, cash flows that are solely payment of principal and interest on the principal amount outstanding.

Financial assets measured at FVTPL - These assets are subsequently measured at fair value. The net gain or loss, including interest or dividend income, is recognized in profit or loss.

Fair value through other comprehensive income (FVTOCI) - debt instrument - These assets are subsequently measured at fair value. Interest income calculated based on the effective interest method, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Other gains or losses are recognized in OCI. On derecognition, the cumulative gain or loss in OCI is reclassified to profit or loss.

All financial assets not classified as measured at amortized cost. or FVTOCI, as described above, are classified as at FVTPL. This includes all derivative financial assets. On the initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost as FVTOCI or FVTPL if this eliminates or significantly reduces an accounting mismatch that otherwise would arise (fair value option available in IFRS 9 / CPC 48).

A financial asset (other than trade receivables without a significant financial component that is initially measured at the transaction price) is initially measured at fair value, plus, for an item not measured at FVTPL, the transaction costs directly attributable to its acquisition.

The Company’s financial assets are mainly represented by financial investments, remunerated based on the variation of the Interbank Deposit Certificate - CDI (Note 7), trade receivables (Note 9), both classified as subsequently measured at amortized cost. The adoption of IFRS 9 / CPC 48 did not result in significant changes in the Company's accounting policies, considering the nature of its transactions.

The Company's financial liabilities are mainly represented by debentures issued by the Company (Note 15) and accounts payable for acquisitions (Note 18), which are classified as subsequently measured at amortized cost. Regarding the financial liabilities, the adoption of IFRS 9 / CPC 48 did not result in significant changes in the Company's accounting policies, considering the nature of its transactions.

(ii) Impairment loss

Expected credit losses are estimates weighted by the likelihood of credit losses based on historical losses and projections of related assumptions. Credit losses are measured at present value based on all cash deficits (that is, the difference between the cash flows due to the Company in accordance with the agreement and the cash flows the Company expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset. In accordance with the replacement of the incurred loss model for the expected loss model, Management concluded that the methodology already adopted complies with the expected loss model and, therefore, the first-time adoption of IFRS 9 / CPC 48 as of January 1, 2018 did not have material impacts on the measurement of the provision for doubtful accounts.

(iii) Hedge accounting

The Company adopts the policy of not operating with derivative financial instruments.

Management assessed the new standard and did not identify impacts on the interim accounting information, considering the nature of its main financial transactions.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 introduces the principles that an entity will apply to establish the revenue measurement and recognition, based on five steps: a) identify the contract(s) with a customer; b) identify the performance obligations in the contract; c) determine the transaction price; d) allocate the transaction price to the performance obligations in the contract; and d) recognize revenue when (or as) the entity satisfies a performance obligation. The changes establish the criteria for the measurement and accounting of sales as they have been effectively carried out, with their proper disclosure, as well as the accounting of the amounts for which the Company has the rights in the operation, considering any estimated impairment.

Management assessed this new standard and identified no impacts on its interim accounting information, taking into consideration the nature of the education services rendered by the Company's three business segments, since it is possible to identify the rights of each party, the payment terms are clear, there is commercial substance, and it is probable that the entity will receive the amount to which the performance obligation is linked. The Company chose the modified retrospective application of IFRS 15 / CPC 47 beginning on January 1, 2018.

2.1 NEW STANDARDS, AMENDMENTS TO AND INTERPRETATIONS OF STANDARDS

Below are the new or revised standards that are not yet effective and will be effective as from the fiscal year beginning on January 1, 2019.

IFRS 16 - Leases

This new standard replaces IAS 17, "Leases" and the corresponding interpretations and requires lessees to recognize the liability of the future payments and the right of use of the leased asset for virtually all lease contracts, including operating leases. Certain short-term and low-value contracts may be out of the scope of this new standard. The Company’s Management engaged an independent specialized company to assist in the identification of the contracts (contracts inventory), assessing whether it holds or does not hold lease agreements in accordance with IFRS 16 / CPC 06 (R2). The analysis is currently in the process of determining the impacts, which are mainly related to properties leased from third parties, whose amounts generated to date are shown in Note 29. The standard contains a significant component of judgment in this regard and requires a thorough assessment of appropriate controls for the measurement of liabilities qualified as lease agreements. At September 30, 2018, the analyses and internal controls associated with the measurement and recognition of lease agreements are substantially completed and customized, pending conclusion of the definition of certain assumptions. Given the complexity of the application of the standard, and until it is adopted on January 1, 2019, there may be changes in the conclusions. However, considering its initial assessment, Management believes that an intangible asset of R$ 3,500,000 will be recorded, due to the adjustment to more than 400 agreements held by the Company with terms exceeding 10 years.

(ii) IFRS 23 - Uncertainties over Income Tax Treatments: this interpretation clarifies how the requirements for the recognition and measurement of IAS 12 are applied when there are uncertainties over income tax treatments (IRPJ and CSLL). Management is assessing the impacts of these amendments. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. FINANCIAL RISK MANAGEMENT

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

3.1. Financial risk factors

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

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

There were no significant changes in relation to financial risks at December 31, 2017.

a) Market risk - cash flow interest rate risk

Management assessed the possible impact of the change in the market risk related to the interest rate on the issue of debentures in July 2018. Management concluded that there is not a significant increase in the risk of incurring losses due to the fluctuation of rates for the quarter, which would increase the finance costs related to the debentures raised in the market and accounts payable for acquisitions.

(All amounts in thousands of reais unless otherwise stated)

Interest rates contracted are as follows:

TABLE 1 - Contracted interest rates

			Consolidated
	9/30/2018	12/31/2017	Interest rate
Borrowings			
Leasing	34,246	37,221	IPCA
Leasing - Equipment and Other	-	126	6.7% p.a.
Debentures	5,563,130	266,534	100% of the CDI + interest of 0.75% to 2% p.a.
Debentures - SABER 1st issue - 3rd series	106,183	-	IPCA + 6.72% p.a.
Accounts payable for acquisitions	133,680	66,262	CDI
Accounts payable for acquisitions	118,276	44,954	IPCA
Accounts payable for acquisitions (i)	20,500	11,570	Other
Total	5,976,015	426,667	

CDI - Interbank Deposit Certificate
IPCA - Amplified Consumer Price Index

(i) This refers mainly to the acquisitions subject to the Special System for Settlement and Custody ("SELIC") rate.

b) Credit risk

There were no significant changes in comparison with the year ended December 31, 2017.

c) Liquidity risk

In assessing the Group level liquidity risk, Management believes that there was no deterioration in its liquidity, even after the issue of debentures in July 2018, since the future cash flow arising from the acquisitions is expected to be sufficient to maintain the Company’s financial equilibrium. The table below analyzes the Company's financial liabilities by maturity range (realized and projected), corresponding to the remaining period of the security or liability.

(All amounts in thousands of reais unless otherwise stated)

TABLE 1.1 - Financial liabilities by maturity range

				Consolidated
	Less than one year	Between one and two years	Over two years	Total
At September 30, 2018				
Suppliers	310,365	-	-	310,365
Borrowings	2,484	2,697	29,065	34,246
Debentures	167,917	1,138,032	4,363,364	5,669,313
Accounts payable for acquisitions	129,249	39,410	103,797	272,456
	610,015	1,180,139	4,496,226	6,286,380

TABLE 1.2 - Financial liabilities by maturity ranges - Projected

				Consolidated
	Less than one year	Between one and two years	Over two years	Total
At September 30, 2018				
Suppliers	310,365	-	-	310,365
Borrowings	2,732	2,683	31,962	37,377
Debentures	179,083	1,213,711	4,653,528	6,046,322
Accounts payable - acquisitions	139,589	42,563	112,101	294,252
	631,770	1,258,957	4,797,591	6,688,317

The balances in Table 3.2 reflect the balances payable of principal and interest and monetary adjustment up to the last installment and, therefore, they do not reflect the balances presented in the related notes for the period ended September 30, 2018.

3.2. Capital management

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

To maintain or adjust the capital structure, the Company is able to revise the policy by paying dividends and return capital to stockholders, issue new shares or buy back shares.

At September 30, 2018, the Company's capital structure was designed to promote its growth strategy, whether organically or through acquisitions. The investment decisions consider the expected return potential.

(All amounts in thousands of reais unless otherwise stated)

The gearing ratios are as follows:

TABLE 2 - Calculation of the gearing ratios

	Consolidated	
	9/30/2018	12/31/2017
Borrowings, debentures and accounts payable due to acquisitions (i)	(5,976,015)	(426,667)
Cash and cash equivalents and marketable securities - current and non-current	6,793,655	1,733,269
Net cash	817,640	1,306,602
Equity	15,893,899	15,207,726
Gearing ratio	-5.14%	-8.59%

(i) See composition shown in table 3.

3.3. Sensitivity analysis

The following table presents the sensitivity analysis of the financial instruments, describing the risks that could generate losses to the Company, according to the assessment made by management, considering a probable basic scenario with a 12-month horizon, using the following projected rates: CDI 6.65% and IPCA 4.30% p.a. Additionally, two further stressed scenarios are shown to present, respectively, a 25% and 50% deterioration.

Management believes that, because it has a net positive cash position, financial investments being greater than bank debts, the most likely risk scenario is a deterioration in the Company's position in the quarter following a reduction of CDI accompanied by a decrease in the IPCA rate. In summary, to facilitate the interpretation, the Company has presented the sum of the total variations.

TABLE 3 - Sensitivity analysis

					Consolidated
	Exposure at the base date 9/30/2018	Risk	Probable scenario	Possible scenario -25%	Remote scenario -50%
Financial investments and marketable securities	6,793,655	Reduction of the CDI	451,778	338,834	225,889
Debentures and accounts payable linked to the CDI	(5,696,810)	Reduction of the CDI	(378,838)	(284,128)	(189,419)
Debentures and accounts payable linked to the IPCA	(258,705)	Reduction of the IPCA	(11,124)	(8,343)	(5,562)
	838,140		61,816	46,363	30,908

(All amounts in thousands of reais unless otherwise stated)

Source: IPCA from Focus report of the Central Bank of Brazil ("BACEN") and CDI, in accordance with the reference rates of the Brazilian Stock Exchange ("BM&F" or "B3"), both available on the websites of the respective institutions.

4. FINANCIAL INSTRUMENTS BY CATEGORY

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

TABLE 4 - Financial instruments

						Consolidated
			9/30/2018			12/31/2017
	Amortized cost	**Fair value through profit or loss**	**Total**	**Loans and receivables**	**Fair value through profit or loss**	**Total**
Assets as per balance sheet						
Cash and cash equivalents	3,372,164	-	3,372,164	921,328	-	921,328
Marketable securities	-	3,421,491	3,421,491	-	811,941	811,941
Trade and other receivables	2,296,820	-	2,296,820	2,040,890	-	2,040,890
	5,668,984	3,421,491	9,090,475	2,962,218	811,941	3,774,159

						Consolidated
			9/30/2018			12/31/2017
	Amortized cost	**Other financial liabilities**	**Total**	**Liabilities at fair value through profit or loss**	**Other financial liabilities**	**Total**
Liabilities as per balance sheet						
Borrowings	34,246	-	34,246	-	37,347	37,347
Debentures	5,669,313	-	5,669,313	266,534	-	266,534
Trade and other payables, excluding legal obligations	608,346	-	608,346	-	469,187	469,187
	6,311,905	-	6,311,905	266,534	506,534	773,068

The Company's financial assets and liabilities at September 30, 2018 are recorded in the balance sheet at amounts that are consistent with market values, except for debentures. In the period ended September 30, 2018, the total carrying amount of the debentures was R$ 5,669,314 and the fair value was R$ 5,548,255 (R$ 266,534 and R$ 244,670 at December 31, 2017, respectively).

(All amounts in thousands of reais unless otherwise stated)

5. BUSINESS COMBINATIONS

Colégio Leonardo da Vinci

On April 10, 2018, Saber acquired all quotas of the capital of CELV and DA VINCI (together, the "Companies" or "College") (Note 1).

The table below shows the preliminary allocation of the purchase price between the future profitability goodwill and other intangible assets (customer portfolio):

	CELV	DA VINCI
Liabilities, net (Note 1.1)	63,154	16,836
Purchase price	72,531	47,469
Surplus of the purchase price over the fair value preliminarily classified as goodwill	**135,685**	**64,305**
Allocation of goodwill		
Goodwill	109,780	41,811
Portfolio of customers	25,905	22,494

The economic rationale for the acquisition of CELV and DA VINCI were as follows:

a) to increase revenue by: i) opening new schools using the employees' experience and the renowned quality of the teaching services rendered by the College; ii) rendering new services, such as extracurricular and full-time courses; b) the College is recognized as the best school in the State of Espírito Santo, since it has obtained the top grade in the National High School Test ("ENEM") in the state for the last few years (six times in the last seven years); c) the College has a bilingual school, with international agreements, allowing that students obtain the High School degree that allows them to enroll in United States of America universities.

Regarding the customer portfolio, specifically, the specialized company that issued the reports was able to identify that there is a regular, consistent relationship between the College and students over a period, which determines that the current student portfolio is a significant part of the amount paid in the acquisition. Accordingly, the relationship with the students has been identified as an intangible asset acquired in the transaction.

A turnover rate (or stress rate) was considered - that is, the student dropout in each period calculated from the student base's historical average loss of 8.3% p.a. The remaining useful lives were estimated as 13.72 years and 12.72 years for Da Vinci and CELV, respectively. They were calculated based on the concentration criteria of approximately 90% of the total flow generated by an indefinite useful life asset.

Because the customer portfolio's operational flow depends on other assets from both the companies (contribution-based assets) to make its future benefit feasible, the respective remunerations of each (working capital, property and equipment, and workforce) were considered in estimating future cash flows as projected for the "customer portfolio" intangible asset.

The main assumptions used in the business plan that validated the future profitability goodwill and provided subsidies for calculating the intangible asset allocated under the "customer portfolio" were: a) an average price growth close to the future inflation rate, that is, approximately 5% p.a.; b) conservative growth, close to 3.5% p.a., for the next few years, in the number of students, taking into account the opening of new classes and courses, using the installed capacity; c) decrease in costs by better using the current capacity as well as synergies due to the new purchase volume level, taking into account the possible set of the other parent company's units; d) the other assumptions used in the Business plan, such as investments and working capital, that follow the historical indicators.

For the calculation of the intangible asset's projected cash flow present value, a discount rate of 15.30% p.a. was adopted. This rate was estimated based on the Weighted Average Capital Cost ("WACC") calculated for CELV and DA VINCI, on the risks associated with the intangible asset, and in the estimated returns for its other assets.

The intangible asset's fair value includes the calculation of the tax benefit arising from the possible amortization of such fair value of the asset according to its estimated useful life (that is, the Tax Amortization Benefit), taking into consideration its acquisition by a potential market player.

In the specific case of the future profitability for goodwill purposes, the estimate is based on the business plan prepared for the acquisition, and the main business assumptions used were considered by management as adequate, since they estimate revenue growth slightly above the expected inflation rate for the next few years based on the existing additional, significant potential for revenue through the installed student's base. Other cash flow items and discount rates adopt the same assumptions mentioned above for the customer portfolio.

The Company completed the process of validating the identifiable net assets, without any alterations or adjustments to be considered in the financial statements.

Supported by the Purchase Price Allocation report issued by Company's consultants, the balance of R$ 199,813 was allocated in "Intangible Assets" upon the acquisition of CELV and DA VINCI.

(All amounts in thousands of reais unless otherwise stated)

Colégio Lato Sensu

On September 24, 2018, SABER acquired all quotas of the capital of Núcleo Brasileiro De Estudos Avançados Ltda. ("Lato Sensu I"), Colégio Manauara Latu Sensu Ltda. ("Manauara"), Sanches Serviços De Educação Ltda. ("Leal e Sanches") and Centro Educação Do Norte Do Brasil ("Lato Sensu II") (Note 1);

The table below shows the preliminary allocation of the purchase price of the future profitability goodwill:

	Lato Sensu I	Manauara	Leal e Sanches	Lato Sensu II
Liabilities, net (Note 1.1)	(910)	(4,000)	(127)	(594)
Purchase price	21,314	93,686	1,585	7,415
Adjustment to present value	(1,691)	(7,434)	(126)	(588)
Excess purchase price over the fair value preliminarily classified as goodwill	18,713	82,252	1,332	6,233
Preliminary allocation of goodwill				
Goodwill	18,713	82,252	1,332	6,233

The economic rationale used for the acquisition of Colégio Lato Sensu was as follows:

a) to increase revenue by: i) opening new schools using the employees' experience and the renowned quality of the teaching services rendered by the College; ii) rendering new services, such as extracurricular and full-time courses; b) the College is recognized as the best school in the city of Rio Branco, State of Acre; c) Colégio Lato Sensu has a distinguished teaching method and great focus on quality, qualifying between the 1st and 2nd places in ENEM in the State of Amazonas in the last ten years. Moreover, it is the school with the highest approval rate in entry examinations for UFA (Federal University of Amazonas) and UEA (University of the State of Amazonas), with its students consistently among the first places and first places of the most competitive courses of these institutions in the same period.

(All amounts in thousands of reais unless otherwise stated)

6. CREDIT QUALITY OF FINANCIAL ASSETS

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

TABLE 5 - Credit quality of financial assets

	Consolidated	
	9/30/2018	12/31/2017
Trade receivables (Note 9)		
Group 1 - higher education	3,601,639	2,999,080
Group 2 - basic education	49,552	79,788
	3,651,191	3,078,868

Trade receivables in Group 1 mainly consist of individual customers, linked to the rendering of graduation services and debt negotiation. The risk of this group is managed in accordance with the aging of debts and the segregation of students per type of product and profile: Student Financing Fund ("FIES") and Private Special Installment Plan ("PEP"), for example. Trade receivables in Group 2 mainly consist of sales of products to legal entities, which are subject to a credit analysis for approval.

	Consolidated	
	9/30/2018	12/31/2017
Cash and cash equivalents (Note 7)		
AAA (i)	2,301,062	1,144
AA+	-	60,166
AA (ii)	13,050	845,743
A+	1,017,756	-
A	-	61
A-	-	13,884
AA-	7	-
Not applicable	40,289	330
	3,372,164	921,328
Marketable securities (Note 8)		
AAA	110,081	51,421
AA (i)	31,260	733,243
A+	3,265,789	3,240
Not applicable	14,361	24,037
	3,421,491	811,941

(i) As Santander Brasil is not rated by Fitch, the Standard & Poor’s rating for the classification of investments held with the institution was used, in the amount of R$ 1,194,196.

(ii) The variation in the classification of balances between periods is attributed to the changes in ratings by risk-rating agencies such as Fitch Ratings.

(All amounts in thousands of reais unless otherwise stated)

7. CASH AND CASH EQUIVALENTS

TABLE 6 - Composition of cash and cash equivalents

	Parent company		Consolidated	
	9/30/2018	12/31/2017	9/30/2018	12/31/2017
Cash				
Current account	91	133	99	294
	91	133	99	294
Financial investments				
Fixed-income fund	-	-	654	11,456
OPCM - Repurchase Operation	-	-	1,016,705	133,970
NTNO - National Treasury Note (i)	22,496	200,437	1,409	713,176
Bank Deposit Certificate ("CDBs")	-	-	2,353,297	62,432
	22,496	200,437	3,372,065	921,034
	22,587	200,570	3,372,164	921,328

(i) NTNOs are one-day financial investments made with private banks guaranteed by government securities.

The Company has short-term investments with high liquidity and immaterial risk of change in value. A significant portion of these investments are carried out through wholly-owned funds. Financial investments presented an average gross yield of 99.89% of the CDI rate at September 30, 2018 (100.79% of the CDI rate at December 31, 2017).

8. MARKETABLE SECURITIES

TABLE 7 - Composition of marketable securities

		Consolidated
	9/30/2018	12/31/2017
National Treasury Bills ("LTNs")	1,774,697	34,746
Financial Bills ("LFs")	141,340	48,977
Financial Treasury Bills ("LFTs")	1,505,454	728,218
	3,421,491	811,941
Current	3,420,487	805,212
Non-current	1,004	6,729
	3,421,491	811,941

(All amounts in thousands of reais unless otherwise stated)

The average gross profitability of the marketable securities was 99.89% of the CDI rate at September 30, 2018 (100.79% of the CDI at December 31, 2017).

9. TRADE RECEIVABLES

a) Composition

TABLE 8 - Composition of trade receivables

		Consolidated
	9/30/2018	12/31/2017
Higher education (i)	3,601,639	2,999,080
Basic education	49,552	79,788
	3,651,191	3,078,868
Provision for doubtful accounts		
Higher education	(1,290,607)	(990,635)
Basic education	(4,772)	(4,095)
	(1,295,379)	(994,730)
Trade receivables, net	2,355,812	2,084,138
Adjustment to present value (ii)	(198,125)	(187,667)
	2,157,687	1,896,471
Current	1,521,898	1,448,662
Non-current (iii)	635,789	447,809
	2,157,687	1,896,471

(i) Consists of monthly tuition fees overdue or amounts falling due for students, FIES, and students with installment receivables.

(ii) The adjustment to present value ("APV") is calculated on the amounts of revenue recognized every month, for which the maturity date is in future periods, mainly for the products used by students who benefit from the PEP or the Late Enrollment Installment ("PMT"). The weighted average rate used to discount the amounts was 3.28% during the period.

The accretion of the APV may occur in two different manners: a) through the natural evolution of the agreements over the time, that is, every month the proportional amount related to the month is reversed, originating a positive impact on the result; and b) in the event of student dropout, which, in accordance with the agreement signed, allows the Company to charge in advance the debt balance, and in this case, the APV balance is fully reversed.

(All amounts in thousands of reais unless otherwise stated)

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

The increase in accounts receivable is due to the increase in the investment of the installment products in the Company's revenue, such as PEP and PMT, in which part of the payment is only made after completion of the course. It is also connected to the current elevated volume of overdue tuition fees due to the unstable economic scenario and to the systemic integration of the different collection programs, which has brought a short-term negative impact. Similarly, the provision for doubtful accounts linked to the PEP and PMT also increased, since the Company's policy is to make a provision of 50% of the amount divided into installments, net of the adjustments to present value.

The information related to FIES and PEP, as well as the related criteria of the provision for impairment of trade receivables and write-offs did not change; further details available in the financial statements for the year ended December 31, 2017.

At September 30, 2018, the receivables from FIES, net of the provision for impairment of trade receivables and the APV, amounted to R$ 361,399 (R$ 532,209 at December 31, 2017, including the balance of PN23 of December 29, 2015).

b) Analysis of maturities

TABLE 9 - Maturities of trade receivables

	Consolidated	
	9/30/2018	12/31/2017
Not yet due / PEP	2,908,638	2,368,262
Past due		
Up to 30 days	136,566	126,868
From 31 to 60 days	70,586	112,281
From 61 to 90 days	34,122	99,643
From 91 to 180 days	231,644	143,176
From 181 to 365 days	269,635	228,638
Total past due	742,553	710,606
Provision for doubtful accounts	(1,295,379)	(994,730)
Adjustment to present value	(198,125)	(187,667)
	2,157,687	1,896,471

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

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

(All amounts in thousands of reais unless otherwise stated)

TABLE 10 - Changes in provision for the impairment of trade receivables

		Consolidated
	9/30/2018	12/31/2017
Opening balance	(994,730)	(605,945)
Addition from acquiree	(3,897)	(2,710)
Write-off against trade receivables	201,922	197,105
Constitution	(498,674)	(583,180)
Closing balance	(1,295,379)	(994,730)

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

10. ACCOUNTS RECEIVABLE FOR THE SALE OF SUBSIDIARIES

TABLE 11 - Accounts receivable for the sale of subsidiaries

		Consolidated
	9/30/2018	12/31/2017
UNIASSELVI	558,521	528,549
FAC	29,385	27,353
FAIR	16,785	15,623
Colégio Anchieta	4,599	4,438
NOVATEC	4,370	4,171
FCR	2,828	2,720
FAUSB	868	1,121
	617,356	583,975
Current	134,085	133,961
Non-current	483,271	450,014
	617,356	583,975

(All amounts in thousands of reais unless otherwise stated)

11. OTHER RECEIVABLES

TABLE 12 - Composition of other accounts receivable

	Consolidated	
	9/30/2018	12/31/2017
Prepaid expenses (i)	21,316	11,730
Receivables of acquired companies (ii)	79,418	81,265
National Institute of Social Security ("INSS") contribution recoverable (iii)	30,859	25,424
Other (iv)	7,540	13,550
Total	139,133	131,969
Current	81,255	64,689
Non-current	57,878	67,280
	139,133	131,969

(i) Mainly consists of: R$ 6,179 - marketing expenses; R$ 6,847 - Municipal real estate tax ("IPTU") expenses; R$ 1,900 - teaching material, and R$ 4,838 for software licenses.

(ii) Mainly consist of accounts receivable from the Uniban Group's former owners amounting to R$ 63,804, of which a) R$ 31,512 with future maturity is related to a payment in installment of the Services Tax ("IASS") which is also provisioned in liabilities; and b) R$ 32,292 receivable from a number of proceedings that are under the responsibility of the former sponsor. The amounts are under negotiation and discussion at the Arbitration Chamber. The Company is retaining the rental payments related to the real estate used. In addition, the balance of R$ 12,605 consists of amounts receivable from another sponsor and is currently being charged.

(iii) Consists mainly of INSS contribution recoverable originating from favorable judicial decisions regarding termination payments.

(iv) Consists of: R$ 2,477 of remaining balance for the sale of a property located in the city of São Paulo and R$ 2,924 for the sale of a property located in the city of Santo André.

(All amounts in thousands of reais unless otherwise stated)

12. PROPERTY AND EQUIPMENT

TABLE 13 - Changes in property and equipment

Consolidated

	IT equipment	Furniture, equipment and fittings	Library	Buildings and improvements	Property and equipment in progress	Land	Total
At December 31, 2017	89,512	347,898	154,086	1,168,463	71,724	99,779	1,931,462
Additions	41,968	93,312	13,557	73,215	155,153	-	377,205
Business combination additions	627	4,093	1,173	5,852	647	50	12,442
Disposals	(939)	(478)	(2,713)	-	(440)	-	(4,570)
Depreciation	(27,013)	(36,788)	(19,135)	(42,322)	-	-	(125,258)
Transfers	-	-	-	87,442	(87,442)	-	-
At September 30, 2018	104,155	408,037	146,968	1,292,650	139,642	99,829	2,191,281
Annual average depreciation rate	30%	11%	10%	4%	-	-	

13. INTANGIBLE ASSETS

TABLE 14 - Composition of intangible assets

Consolidated

	Software	Content production	License to operate	Goodwill and intangible assets allocated	Other intangible assets	Total
At December 31, 2017	264,025	158,310	8,262	10,729,359	138,933	11,298,889
Additions (i)	84,408	65,868	6,226	403,954	10,860	571,316
Business combination additions	128	2	31	-	-	161
Disposals	(3,735)	(59)	(1,777)	(829)	(396)	(6,796)
Amortization	(49,620)	(70,034)	(1,989)	(55,307)	(15,976)	(192,926)
At September 30, 2018	295,206	154,087	10,753	11,077,177	133,421	11,670,644
Average annual amortization rate	20%	21%	33%	1%	5%	-

(i) Allocated intangible asset and goodwill resulting mainly from the acquisition of the subsidiaries (Note 1).

a) Goodwill generated in the acquisition of subsidiaries and intangible assets allocated from business combinations

The goodwill arising from the difference between the purchase consideration of investments in subsidiaries and the fair value of the assets and liabilities is classified in intangible assets in the consolidated financial statements.

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

(All amounts in thousands of reais unless otherwise stated)

TABLE 15 - Composition of goodwill and intangible assets allocated

	Consolidated	
	9/30/2018	12/31/2017
Goodwill (i)	8,860,241	8,505,515
Trademarks (ii)	1,500,599	1,554,526
Operation license and partner network (iii)	665,746	665,746
Portfolio of customers (iv)	50,513	3,234
Non-compete agreement (iv)	78	338
	11,077,177	10,729,359

(i) Goodwill arising on acquisition of subsidiaries, classified as derived from expected future profitability. It has no finite useful life and is subject to annual impairment tests.

(ii) Intangible assets with useful lives estimated between 25 and 30 years.

(iii) Licenses for operation of in-class and distance teaching and teaching unit networks. It has no finite useful life and is subject to annual impairment tests

(iv) Addition of customer portfolio in the acquisition of CELV and DA VINCI with estimated useful life of 13 years; other additions have estimated useful lives of 3.5 and 5 years.

14. INVESTMENTS

TABLE 16 - Composition of investments in subsidiaries

	Parent company	
	9/30/2018	12/31/2017
Editora e Distribuidora Educacional S.A. (“EDE”)	6,042,358	5,353,840
Anhanguera Educacional Participações S.A. (“AESAPAR”)	3.019.855	2,982,461
SB Sistemas	2	-
Subtotal	9,062,215	8,336,301
Goodwill, including that of Anhanguera	7,480,220	7,535,594
Total	16,542,435	15,871,895

TABLE 17 - Information on direct subsidiaries

	September 30, 2018					
	Participation in equity	Number of shares	Total assets	Total liabilities	Equity	Profit for the period
EDE	100%	2,789,437,961	6,769,778	727,419	6,042,359	830,161
AESAPAR	74.46%	563,398,783	5,308,409	1,252,733	4,055,676	579,862
SB SISTEMAS	100%	2,000	-	-	2	-
		3,352,838,744	12,078,187	1,980,152	10,098,037	1,410,023

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE PARENT COMPANY AND CONSOLIDATED INTERIM ACCOUNTING INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2018
(All amounts in thousands of reais unless otherwise stated)

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

TABLE 18 – Composition of investments in direct subsidiaries

						Parent company
Investment	12/31/2017	Allocated goodwill	Equity in the results of subsidiaries	Capital increase	Dividends	9/30/2018
EDE	5,353,840	-	830,161	240,000	(381,643)	6,042,358
AESAPAR	2,982,461	-	431,766	-	(394,372)	3,019,855
SB SISTEMAS	-	-	-	2	-	2
Goodwill, including that of Anhanguera	7,535,594	(55,374)	-	-	-	7,480,220
Total	15,871,895	(55,374)	1,261,927	240,002	(776,015)	16,542,435

TABLE 19 - Information on indirect subsidiaries

						September 30, 2018
	Participation in equity	Number of quotas	Total assets	Total liabilities	Equity	Profit for the year
Direct subsidiaries - EDE						
Pax Editora e Distribuidora	100%	17,956,763	25,164	1,508	23,656	(68)
Projecta Educacional	100%	10,234,275	5,510	326	5,184	105
Saber Serviços Educacionais Ltda. (i)	100%	513,480,389	6,270,834	5,753,334	517,500	(662)
Núcleo Brasileiro de Estudos Avançados Ltda	100%	10,000	1,375	465	910	-
Colégio Manauara Latu Sensu Ltda.	100%	3,261,353	7,471	3,471	4,000	-
Sanches Serviços de Educação Ltda.	100%	480,000	492	365	127	-
Centro de Educação do Norte do Brasil	100%	50,001	1,360	766	594	-
Centro Educacional Leonardo da Vinci S/S Ltda.	100%	2,839,000	183,920	246,451	(62,531)	623
Da Vinci Serviços Educacionais Ltda.	100%	1,870,000	4,848	20,088	(15,240)	1,597
Centro de Ensino Atenas Maranhense	100%	76,850,364	206,584	17,111	189,473	33,369
Faculdade Integradas de Sorriso	99.99%	8,913,752	60,456	1,819	58,637	13,708
Orme Serviços Educacionais	99.99%	156,447,196	66,988	224	66,764	(19,025)
Pitágoras Sistema de Ensino Sociedade	99.99%	384,011,229	693,475	119,007	574,468	299,003
União de Ensino Unopar	99.99%	31,537,819	37,505	6,780	30,725	6,285
União Educacional Candido Rondon	99.99%	-	-	-	-	4,072
Iuni Educacional	99.99%	456,396,305	1,088,235	121,403	966,832	309,227
Unic Educacional	99.99%	203,030,858	410,090	14,639	395,451	155,462
Iuni Educacional - Unime Salvador	99.99%	15,916,973	73,083	6,374	66,709	18,885

(All amounts in thousands of reais unless otherwise stated)

	September 30, 2018					
	Participation in equity	Number of quotas	Total assets	Total liabilities	Equity	Profit for the year
União Metropolitana para o Desenvolvimento da Educação e Cultura	99,99%	49.701.183	295,740	14,390	281,350	128,830
União de Faculdades do Amapá	99.99%	11,619,489	174,567	18,270	156,297	48,745
Direct subsidiaries - AESAPAR						
Clínica Médica Anhanguera Ltda.	99.99%	100,000	483	1	482	(19)
Anhanguera Educacional Ltda.	99.99%	49,163,929	127,256	(4,537)	131,793	21,973
Edufor Serviços Educacionais Ltda. - ME	99.99%	1,759,300	1,001	478	523	(1,277)
Sociedade Piauiense de Ensino Superior Ltda.	100%	14,971,750	33,228	48,327	(15,099)	2,303
Fateci Cursos Técnicos	100%	514,000	110	1,358	(1,248)	(626)
Clauder Cialini Filho	100%	2,777,000	14,198	36,210	(22,012)	4,561
Sociedade Educacional Da Paraíba Ltda.	100%	20,000,000	6,958	968	5,990	(189)
Bacabal Mearim Sistemas de Ensino Ltda.	100%	298,000	20,129	34,365	(14,236)	(393)
Anhanguera Educacional Fundo de Investimento em Direitos Creditórios	99,99%	12.799.298	62,733	85	62,648	15,296
Instituto Excelência Ltda.	99.99%	17,935,579	3,785	222	3,563	(8)

(i) Change in corporate name of Sistema Pitágoras de Ensino Sociedade Ltda.

15. DEBENTURES

TABLE 20 - Composition of Debentures

				Consolidated	
	Remuneration	Date of issue	Maturity	9/30/2018	12/31/2017
1st issue of debentures (i)	CDI + 2.00% p.a.	1/12/2011	12/15/2018	81,616	78,932
2nd issue of debentures - 1st series (ii)	CDI + 1.95% p.a.	2/26/2015	9/28/2018	-	102,235
2nd issue of debentures - 3rd series (ii)	CDI + 1.70% p.a.	2/26/2015	12/10/2019	65,324	85,367
SABER 1st issue of debentures - 1st series (iii)	CDI + 0.75% p.a.	8/15/2018	8/15/2021	1,134,105	-
SABER 1st issue of debentures - 2nd series (iii)	CDI + 1.00% p.a.	8/15/2018	8/15/2023	4,282,085	-
SABER 1st issue of debentures - 3rd series (iii)	IPCA + 6.72% p.a.	8/15/2018	8/15/2025	106,183	-
Total				5,669,313	266,534
Current liabilities				167,917	224,034
Non-current liabilities				5,501,396	42,500
				5,669,313	266,534

(i) The Company through its subsidiary EDE carried out its first placement of debentures, in a single series. In total, 550 debentures with a unit value of R$ 1,000 were subscribed, totaling R$ 550,000. The debentures were issued in registered, book-entry form, without issuance of certificates and without the possibility of conversion into shares. The debentures do not have renegotiation clauses. The payments of principal are made annually and the interest due, calculated up to the maturity dates, is paid semiannually (June and December).

(All amounts in thousands of reais unless otherwise stated)

(ii) The Company through its subsidiary EDE placed its second issue of debentures, in three series. In total, 570 debentures with unit value of R$ 1,000 were subscribed, totaling R$ 570,000. The debentures were issued in registered, book-entry form, without the possibility of conversion into shares. The debentures do not have renegotiation clauses. The payments of principal and interest due, calculated up to the maturity dates, are made semiannually (March and September).

(iii) The Company through its subsidiary SABER placed 550,000 simple debentures, non-convertible into shares, unsecured, totaling R$ 5,500,000, of which: (i) 112,966 debentures were from the 1st series amounting to R$ 1,129,660; (ii) 426,434 debentures from the 2nd series amounting to R$ 4,264,340; and (iii) 10,600 debentures from the 3rd series amounting to R$ 106,000. The amount raised is allocated in each year as follows (i) acquisition of the shares representing the control of Somos Educação; (ii) funding the Tender Offer for shares of Somos Educação and (iii) the remaining balance, if any, for the issuer’s working capital. The payments of principal occur in August, of which: R$ 1,129,660 in 2021, R$ 2,132,170 in 2022, R$ 2,132,170 in 20123, R$ 53,000 in 2024 and R$ 53,000 in 2015. The payments of interest due, calculated through the dates of the respective payments, are semiannual (February and August).

TABLE 21 – Changes in Debentures

	Consolidated	
	9/30/2018	12/31/2017
Opening balance	266,534	505,573
Addition - Principal	5,500,000	-
Addition - Issue costs	(26,634)	-
Interest accrued	62,105	54,678
Appropriated costs	1,783	1,375
Payment of interest	(13,225)	(86,759)
Payment of principal	(121,250)	(208,333)
Closing balance	5,669,313	266,534

The debentures issued by subsidiary EDE require the compliance with financial ratios (covenants), calculated based on the financial statements of the Company, which is the guarantor of the issue. The calculations must be made from 2012 to 2019, i.e. the final maturity date.

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

(i) net debt divided by the adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA"). The value should not be equal to or less than 3.5.

(ii) adjusted EBITDA divided by the adjusted finance results. The resulting value should not be less than 1.2.

(All amounts in thousands of reais unless otherwise stated)

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

(i) net debt divided by adjusted EBITDA. The resulting value should not be greater than 3.

The debentures placed by subsidiary SABER also require compliance with financial ratios (covenants), calculated quarterly during the term of this issue, based on the consolidated quarterly information of the Company, which is the guarantor of the issue.

The calculation period comprises the 12 months prior to the end of each quarter. The calculation is the ratio of Net Debt to Adjusted EBITDA. The resulting value should not be greater than 3.

At September 30, 2018, the financial ratios of all issues had been complied with.

TABLE 22 - Analysis of maturities of debentures

		Consolidated	
		9/30/2018	
	Maturity of installments	Total	%
Total current liabilities	2018	99,415	1.8
	2019	68,502	1.2
		167,917	3.0
Total non-current liabilities			
Total			
	2019	19,742	0.3
	2021	1,118,290	19.7
	2022	2,127,967	37.5
	2023	2,129,515	37.6
	2024	52,927	0.9
	2025	52,955	0.9
		5,501,396	97.0
		5,669,313	100.0

(All amounts in thousands of reais unless otherwise stated)

16. SALARIES AND SOCIAL CHARGES

TABLE 23 - Composition of social security and labor liabilities

	Parent company		Consolidated	
	9/30/2018	12/31/2017	9/30/2018	12/31/2017
Salaries payable	-	-	67,199	55,584
INSS payable in installments	-	-	39,860	51,695
FGTS payable	-	-	7,034	12,670
IRRF payable	-	-	14,628	24,271
Provision for vacation pay and 13th month salary	-	-	139,364	57,940
Charges on provision	-	-	45,794	19,308
Provision for profit-sharing	43,579	82,407	43,579	82,407
Other (i)	2,114	3,120	26,053	24,554
	45,693	85,527	383,511	328,429

17. TAXES AND CONTRIBUTIONS PAYABLE IN INSTALLMENTS

TABLE 24 - Composition of taxes and contributions payable in installments

		Consolidated
	9/30/2018	12/31/2017
Municipal charges payable in installments (i)	28,471	40,394
Tax Recovery Program ("REFIS") IV - federal - payable in installments	7,521	5,952
INSS payable in installments	660	2,059
	36,652	48,405
Current	7,795	10,612
Non-current	28,857	37,793
	36,652	48,405

(i) Anhanguera

On July 27, 2012, the former owners of Academia Paulista Anchieta - APA enrolled in Installment Payment Incentive Programs ("PPI"), resulting in a balance of ISS payable in installments of R$ 24,442, which are adjusted by the monthly SELIC rate and have maturities ranging from 14 to 44 months.

Balance of IPTU payable in installments in the total amount of R$ 4,029 with different terms and conditions, adjusted by the SELIC rate on a monthly basis.

(All amounts in thousands of reais unless otherwise stated)

18. ACCOUNTS PAYABLE - ACQUISITIONS

TABLE 25 - Composition of payables for acquisitions

	Consolidated	
	9/30/2018	12/31/2017
Colégio Leonardo da Vinci	74,455	-
Colégio Lato Sensu	64,920	-
Betim Real Estate	59,225	-
Uniabc	28,452	27,544
ICF	16,289	16,810
Fateci	8,120	-
Febac	6,959	-
Iesville Educar/Intesc	5,315	5,000
Ítala	-	65,987
LFG	2,453	2,455
SEPA	1,656	-
Other	4,612	4,990
Total	272,456	122,786
Current	129,249	107,907
Non-current	143,207	14,879
	272,456	122,786

TABLE 26 - Changes in payables for acquisitions

	Consolidated	
	9/30/2018	12/31/2017
Opening balance	122,786	147,166
Additions	351,908	29,630
Interest adjustment	7,929	10,395
Write-offs/Offsets	(8,485)	(7,019)
Adjustment to present value	(9,834)	(1,913)
Payments	(191,848)	(55,473)
Closing balance	272,456	122,786

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

(All amounts in thousands of reais unless otherwise stated)

TABLE 27 - Maturities of payables for acquisitions

		9/30/2018	
	Maturity of installments	Total	%
	2018	85,325	31.3
Total current liabilities	2019	43,924	16.1
		129,249	47.4
	2019	2,147	0.8
	2020	37,263	13.7
	2021	28,900	10.6
	2022	36,999	13.6
	2023	37,898	13.9
Total non-current liabilities		143,207	52.6
Total		272,456	100.0

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

19.1 Proceedings involving probable losses

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

TABLE 28 - Changes in contingencies

				Parent company (i)
	Tax	Civil	Labor	Total
At 12/31/2017	57,942	15,936	35,366	109,244
Indexation/interest accruals	-	-	512	512
Reversals (ii)	(6,943)	(8,154)	(28,675)	(43,772)
Total effect – result	(6,943)	(8,154)	(28,163)	(43,260)
Proceedings - former owner	(157)	(399)	(249)	(805)
Payments	-	(4)	-	(4)
Total payments	(157)	(403)	(249)	(809)
At 9/30/2018	50,842	7,379	6,954	65,175

(All amounts in thousands of reais unless otherwise stated)

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

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

TABLE 29 - Changes in contingencies

				Consolidated
	Tax	Civil	Labor	Total
At 12/31/2017	243,966	99,169	247,104	590,239
Additions (i)	14,761	74,964	33,655	123,380
Indexation/interest accruals	874	1,977	1,339	4,190
Reversals (ii)	(65,676)	(29,286)	(96,722)	(191,684)
Total effect - result	(50,041)	47,655	(61,728)	(64,114)
Proceedings - former owner	(16,121)	(270)	506	(15,885)
Payments	(450)	(52,634)	(29,282)	(82,366)
Total payments	(16,571)	(52,904)	(28,776)	(98,251)
Business combination additions (iii)	184,272	41,302	130,089	355,663
At 9/30/2018	361,626	135,222	286,689	783,537

(i) Additions of 9,869 different civil proceedings that total R$ 74,964. The individual amounts attributed to these proceedings are not significant.

(ii) The reversals in the period refer to the changes that impacted profit and loss:

a. Tax: Subsidiary Unime de Lauro de Freitas - the main reversal totaled R$ 10,987, due to the partial success in a tax foreclosure regarding municipal tax ("ISSQN") and various other reversals at the Company that totaled R$ 65,676;

b. Civil: Subsidiary Anhanguera Educacional of Rio Grande, State of Rio Grande do Sul (RS) - the main reversal totaled R$ 900, due to the partial success in a lawsuit that relates to the improper collection of administrative service fees and various other reversals at the Company that totaled R$ 29,286;

c. Labor: Anhanguera Educacional of Belo Horizonte, State of Minas Gerais (MG) - the main reversal totaled R$ 2,101, due to the success in a labor claim in which the plaintiff claims for the payment of general labor related amounts, and various other reversals at the Company that totaled R$ 96,723;

(iii) Business combination addition related to the acquirees (Note 19.2).

On September 30, 2018, the main judicial and administrative proceedings for which the likelihood of loss is considered probable, excluding additions from 2018 business combination (Note 19.2), were as follows:

Tax

The subsidiary Anhanguera is a party to 15 tax foreclosures regarding municipal taxes ("ISSQN") in the State of São Paulo, for which there is a provision of R$ 110,787 of which R$ 102,510 is the responsibility of the former owner. The Company has sufficient contractual guarantees.

Civil

The subsidiary Anhanguera is a party to a proceeding regarding the rental of a property, for which there is a provision of R$ 9,428. The amount collected was deposited in court by the Company.

Labor

The subsidiary Anhanguera is a party to a collective proceeding filed by the Teacher's Union of the industrial hub of São Paulo (the ABC region) claiming: Weekly Remunerated Rest ("DSR") in respect of night shifts, and differentials related to five-year periods; hourly rates per activity and other salary related amounts, for which there is a provision of R$ 8,517.

19.2 Provision for liabilities assumed in business combinations

In the context of CPC 15, Business Combinations, the Company, based on the reports of its legal and financial advisors, recognized in its liabilities a provision amounting to R$ 355,663, which refers to potential nonconformities related to past practices of subsidiaries acquired by the Company when they belonged to their former owners, regarding the compliance with legal and tax legal proceedings. The Company has contractual guarantees in relation to the sellers of these entities in the event it suffers losses from loss contingencies for which the responsibilities contractually lie with the assigned sellers.

The Company accounted for the potential obligation resulting from past events whose fair value can be measured, even though it depends on the occurrence of future events, such as the review of procedures and amounts disclosed in the advisors' report. In addition, considering that the companies were acquired in 2018, management is still within the 12-month period, pursuant to CPC 15, Business Combinations, for the review of all procedures whose responsibility dates before the acquisition. The provisioned amounts have been estimated based on reports issued by external advisors, which took into account interviews and qualitative information, which therefore, can be reviewed in the aforementioned period.

(All amounts in thousands of reais unless otherwise stated)

TABLE 30 - Main provisioned amounts in detail

				Consolidated
	Tax	Civil	Labor	Total
Asserted contingencies (i)				
CELV / DA VINCI	33,611	16	506	34,133
FATECI / CLAUDER	-	793	741	1,534
ICF	4,033	-	-	4,033
	37,644	809	1,247	39,700
Unasserted contingencies (ii)				
CELV / DA VINCI	105,826	1,873	111,037	218,736
FATECI / CLAUDER	20,680	16,894	961	38,535
FEBAC	4,281	7,297	5,805	17,383
ICF	15,841	14,429	11,039	41,309
	146,628	40,493	128,842	315,963
	184,272	41,302	130,089	355,663

Contingencies related to judicial administrative proceedings

These refer to administrative/judicial proceedings related to assessment notices linked to the ISSQN issued by the Municipality of Vitória against CELV and DA VINCI, amounting to R$ 33,611, for which the Company has guarantee in relation to the sellers.

Liabilities assumed in business combinations

Tax

Discussions regarding a potential contingency mainly from non-payment of federal and state taxes from 2013 to 2017, in the acquired entities CELV and DA VINCI, plus fine and legal interest, for which costs were estimated based on interviews and sampling tests prepared by the Company's external advisors.

(All amounts in thousands of reais unless otherwise stated)

Civil

Discussions on the possible contingency mainly derived from indemnities due to the delay in the issue of diplomas of subsidiaries FATECI and CLAUDER.

Labor

Discussions mainly about a potential failure to pay social contribution and federal tax in the 2013-2017, as well as labor and/or social security obligations of the subsidiaries CELVI and DA VINCI.

The Company's external advisors classified the items above as probable losses, in the case of tax assessment notices by tax authorities, as applicable, because there is consolidated case law covering certain matters. A hypothetical favorable decision to the Company would be linked to documentation to be presented and to the proof of correct payment of the appropriate tax, a matter that management has neither assessed nor discussed.

19.3 Guarantees of provision for tax, labor, and civil losses

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

TABLE 31 - Composition of lawsuits that are the responsibility of former owners

				Parent company
	Tax	Civil	Labor	Total
At 12/31/2017	41,328	1,281	1,968	44,577
Additions	-	-	-	-
Business combination additions	-	-	-	-
Reversals	(157)	(399)	(235)	(791)
At 9/30/2018	41,171	882	1,733	43,786

				Consolidated
	Tax	Civil	Labor	Total
At 12/31/2017	115,419	24,382	22,421	162,222
Additions	-	1,837	4,752	6,589
Business combination additions	163,046	8,770	52,210	224,026
Reversals	(11,072)	(2,108)	(4,244)	(17,424)
At 9/30/2018	267,393	32,881	75,139	375,413

Guarantees provided for liabilities assumed in business combinations

(All amounts in thousands of reais unless otherwise stated)

Guarantees are provided in the acquisition process, as offsetting entries to the contingencies (Note 19.2).

The guarantees provided upon acquisitions, as offsetting entries to the contingencies (Note 19.2), are contractually established and consist of: a) retention of the rental amounts linked to real estate units rented by the Company’s subsidiaries; b) retention of a portion of the acquisition price; and c) mortgage of the real estate owned by the sellers. The recorded provision for contingencies and offsetting entries for seller guarantee may be revisited by the Company in up to 12 months, as established by CPC 15. These are the amounts calculated currently, based on information available from due diligence carried out by the Company's external advisors, which is to be reviewed over the subsequent three-month periods.

19.4 Proceedings involving possible losses

TABLE 32 - Composition of proceedings - possible loss

				Consolidated
	9/30/2018	12/31/2017	Number 9/30/2018	Number 12/31/2017
Tax	440,647	368,651	134	147
Civil	222,952	216,156	15,604	11,473
Labor	91,911	80,591	1,353	1,144
Total	755,510	665,398	17,091	12,764

The proceedings classified as possible loss are not provided for in the Company's financial statements, among which are the proceedings arising from business combinations. At September 30, 2018, the Company and its subsidiaries had 17,091 proceedings classified as possible losses, including:

(i) Tax: The Company is a party to a tax assessment notice issued by the Federal Revenue Office in Belo Horizonte/MG, for R$ 131,311, related to the collection of social security contribution on the delivery of Company’s shares to eligible officers under the Company’s Stock Option Plan.

(ii) Civil: The subsidiary Editora is a party to a proceeding that discusses making void an amendment to an agreement of R$ 15,000.

(iii) Labor: The subsidiary Anhanguera Limeira, in the State of São Paulo (SP), is a party to a labor proceeding in which the plaintiff has claimed for accumulation of functions, salary equalization, tangible damage, moral harassment, overtime and vacation pay amounting to R$ 1,989;

(All amounts in thousands of reais unless otherwise stated)

19.5 Judicial deposits

TABLE 33 - Composition of judicial deposits

	Consolidated	
	9/30/2018	12/31/2017
Tax	9,217	9,208
Civil	10,590	10,036
Labor	77,524	51,781
Total	97,331	71,025

20. CURRENT AND DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

a) Income tax and social contribution

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

TABLE 34 - Reconciliation of the income tax and social contribution

	Parent company				Consolidated			
	7/1 to 9/30/2018	9/30/2018	7/1 to 9/30/2017	9/30/2017	7/1 to 9/30/2018	9/30/2018	7/1 to 9/30/2017	9/30/2017
Profit before income tax and social contribution for the year	342,769	1,273,808	438,528	1,454,774	363,792	1,313,994	464,104	1,534,496
Combined nominal rate of income tax and social contribution - %	34%	34%	34%	34%	34%	34%	34%	34%
IRPJ and CSLL calculated at the standard rates	(116,541)	(433,095)	(149,100)	(494,623)	(123,689)	(446,758)	(157,795)	(521,729)
Equity in the results of investees	120,535	429,055	159,325	501,687	-	-	-	-
Tax incentive in subsidiaries entitled to the University for All Program ("PRoUni") benefit	-	-	-	-	80,130	361,182	122,839	441,393

(All amounts in thousands of reais unless otherwise stated)

	Parent company				Consolidated			
	7/1 to 9/30/2018	9/30/2018	7/1 to 9/30/2017	9/30/2017	7/1 to 9/30/2018	9/30/2018	7/1 to 9/30/2017	9/30/2017
Additions (exclusions), net (i)	1,053	20,796	2,075	29,804	15,531	31,004	5,204	14,285
Difference in deemed profit rate of subsidiary	-	-	-	-	(153)	3	(271)	55
Unrecognized deferred IRPJ and CSLL on loss of subsidiaries for the period	-	-	-	-	(1,236)	(5,646)	(1,402)	(4,582)
IRPJ and CSLL - other changes	6	20	6	17	13,447	36,805	17,696	27,282
Total IRPJ and CSLL	5,053	16,776	12,306	36,885	(15,970)	(23,410)	(13,270)	(42,837)
Current IRPJ and CSLL in the result	(1,059)	(1,559)	(339)	(1,053)	(24,947)	(67,033)	(18,477)	(87,508)
Deferred IRPJ and CSLL in the result	6,112	18,335	12,645	37,938	8,977	43,623	5,207	44,671

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

b) Deferred income tax and social contribution

The deferred tax asset balances are recorded on the temporary differences and income tax and social contribution losses:

TABLE 35 - Deferred income tax and social contribution assets

	Consolidated	
	9/30/2018	12/31/2017
Income tax and social contribution losses	133,678	168,830
Temporary differences - taxable profit	617,719	520,378
	751,397	689,208

In August 2017, AESA was partially merged into AESAPAR, which will permit the income tax and social contribution losses to be used over the following years through offset of taxes payable.

(All amounts in thousands of reais unless otherwise stated)

TABLE 36 - Deferred income tax and social contribution assets by year of realization

		Consolidated
Period	Total	%
September to December 2018	65,513	8.7
2019	185,108	24.6
2020	179,918	23.9
2021	164,504	21.9
2022 onwards	156,354	20.8
	685,884	91.3
	751,397	100

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

TABLE 37 - Deferred income tax and social contribution - effect on profit (loss)

		Effect on profit		Parent company
	12/31/2017	Amortization of goodwill	Other	9/30/2018
In liabilities				
Goodwill on business combinations	(694,320)	18,335	-	(675,985)
Non-current liabilities, net	(694,320)	18,335	-	(675,985)

		Effect on profit		Consolidated
	12/31/2017	Amortization of goodwill	Other	9/30/2018
In assets				
Income tax / social contribution:				
Income tax and social contribution losses	168,830	-	(35,152)	133,678
Temporary differences - taxable profit	520,378	-	97,341	617,719
Non-current assets	689,208	-	62,189	751,397
In liabilities				
Goodwill on business combinations	(1,256,398)	(11,124)	-	(1,267,522)
Other adjustments	(113,643)	-	(7,442)	(121,085)
Non-current liabilities, net	(1,370,041)	(11,124)	(7,442)	(1,388,607)
	(680,833)	(11,124)	54,747	(637,210)

(All amounts in thousands of reais unless otherwise stated)

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

c) Tax incentives

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

The tax benefits arising from ProUni calculated for the period ended September 30, 2018, including PIS and COFINS, amounted to R$ 508,095 (September 30, 2017 - R$ 441,393).

21. EQUITY

a) Share capital

The Company's subscribed and paid-up capital at September 30, 2018 was R$ 4,425,677 (R$ 4,363,825 at December 31, 2017). On March 16, 2018, the Board of Directors approved an increase in the Company's capital of R$ 61,852, of which R$ 50 million through capitalization of part of the balance of the reserve for investment, without the issue of new shares and without modifying the number of shares.

TABLE 38 - Composition of share capital

	9/30/2018	12/31/2017
Total shares (except treasury)	1,627,026,351	1,640,357,183
Total treasury shares	17,221,855	169,265
Total shares	1,644,248,206	1,640,526,448

b) Treasury shares

TABLE 39 - Changes in treasury shares

	Number of shares	
	9/30/2018	12/31/2017
At December 31, 2017	169,265	2,211,075
Repurchase of treasury shares	17,212,500	200,000
Disposal of shares	(159,910)	(2,241,810)
At September 30, 2018	17,221,855	169,265

c) Legal reserve

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

d) Reserve for investments

The remaining balance of the profit for the year ended December 31, 2017, after the offset of accumulated losses, the recognition of the legal reserve and the proposal for payment of dividends in the amount of R$ 1,072,869 (R$ 1,151,412 at December 31, 2016), was transferred to "Investment reserve", in accordance with Article 42 of the bylaws, and will be used for investment in the Company, in order to finance the expansion of its activities, either organically or through acquisitions in the market, complying with the business growth plan established by management for the future.

e) Dividends

On November 9, 2018, the Board of Directors approved the interim dividends for the third quarter of 2018 amounting to R$ 132,172.

f) Equity instruments arising on a business combination

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

On the same date, the Company made a capital increase based on the net book value of R$ 2,327,299, related to Anhanguera's equity at December 31, 2013. The difference between the total purchase price and the amount assigned to the share capital of R$ 5,981,227 was recorded as capital reserve (equity instruments resulting from the business combination).

22. STOCK OPTION PLAN

Plans maintained by Kroton Educacional S.A.

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

(All amounts in thousands of reais unless otherwise stated)

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

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

TABLE 40 - Main characteristics of the plan

Plan	Grant date	Grant exercise price	Vesting period	Options granted - active
KROT_Plano2009	2/8/2010 to 0/01/2013	R$2.18 to R$5.78	Five lots with 12, 24, 36, 48 and 60-month term; or four lots with 6, 18, 30 and 42-month term	2,314,666
AEDU_Plano2010	03/07/2014	R$6.06 to R$11.20	Three lots with 36, 48 and 60-month term	85,655
AEDU_Plano2013	6/18/2013 to 7/3/2014	R$9.94 to R$11.20	Three lots with 36, 48 and 60-month term	4,396,194
KROT_Plano2013	11/26/2013 to 6/2/2015	R$5.67 to R$13.01	Four lots with 6, 18, 30 and 42-month term	8,950,000
KROT_Plano2015	10/5/2015 to 7/1/2018	R$8.42 to R$18.86	Four lots with 6, 18, 30 and 42-month term	26,145,294
				41,891,809

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

Restricted stock grant plan

The Company’s stockholders approved at the Extraordinary General Meeting held on September 3, 2018 the creation of a Restricted Stock Grant Plan, as a form of incentive to boost performance and assure continued relationship of the officers and/or employees of the Company or of other companies under its direct or indirect control.

(All amounts in thousands of reais unless otherwise stated)

These officers and employees may be granted rights to receive a maximum number of Restricted Shares not exceeding 19,416,233 Restricted Shares, corresponding to 1.18% of the Company's total capital at the Plan's approval date, excluding shares that are in treasury on such date.

The Company's obligation to transfer the Restricted Shares under the Plan, in up to 10 days counted from the end of the Vesting Period, is contingent upon the continuing employment relationship of the employee or officer, as appropriate, of each Participant with the Company for a period of three years counted from the date the respective agreement is signed.

The Restricted Shares will be granted free of cost to the Participants, through the transfer of shares held in treasury.

In the period ended September 30, 2018, no agreement had been granted under this new plan.

Changes in the stock option plans

The changes in the number of share options outstanding and their related weighted average exercise prices were as follows:

TABLE 41 - Changes in the stock option plans - 2018

PLANS	12/31/2017	Granted	Exercised (i)	Canceled/forfeited	9/30/2018	Average exercise price
KROT_Plano2009	5,914,666	-	(3,600,000)	-	2,314,666	2.91
AEDU_Plano2010	213,489	-	(121,758)	(6,076)	85,655	6.20
AEDU_Plano2013	4,428,403	-	(9,910)	(22,299)	4,396,194	9.79
KROT_Plano2013	9,130,000	-	-	(180,000)	8,950,000	7.25
KROT_Plano2015	25,477,794	2,990,000	(150,000)	(2,172,500)	26,145,294	8.98
TOTAL	45,164,352	2,990,000	(3,881,668)	(2,380,875)	41,891,809	

(i) In the period ended September 30, 2018, 3,881,668 options were exercised, being 3,721,758 through a capital increase with the specific objective of delivering new shares to the beneficiary and 159,910 in consideration of the disposal of treasury shares (December 31, 2017 - 16,698,480 options were exercised, of which 14,456,670 via capital increase and 2,241,810 in consideration of the disposal of treasury shares).

(All amounts in thousands of reais unless otherwise stated)

Calculation of fair value and expense in the result

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

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

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

The options contract with the longest maturity presents a last vesting date of January 1, 2022.

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

TABLE 42 - Fair value calculation

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

(i) Plan exercisable until 2020

(All amounts in thousands of reais unless otherwise stated)

In the period ended September 30, 2018 R$ 20,473 was recognized as an expense on fair value of stock options (R$ 27,249 at September 30, 2017).

23. RELATED PARTIES

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

(i) The subsidiaries Unic Educacional, Unime LF and Iuni use properties leased from Vertia Empreendimentos Imobiliários Ltda. (a company that is controlled by a stockholder and member of the Company's Board of Directors):

	Effective until	Monthly amount	Adjustment index
Unic Educacional	March 2020	198	IPCA
Unime LF	March 2020	669	IPCA
Iuni	March 2020	1,177	IPCA

(ii) The subsidiary EDE uses properties leased from Creare Administração de Bens Móveis e Imóveis Ltda. (a company that is controlled by members of the Company's Board of Directors). The agreement expires in January 2032, with a fixed monthly amount of R$ 1,297, adjusted based on the IPCA.

(iii) The subsidiary AESAPAR uses properties leased from HK Campinas Empreendimentos Imobiliários Ltda. (a company that is controlled by a first-degree descendant of a member of the Company's Board of Directors). The agreement expires in December 2024, with a fixed monthly amount of R$ 345 (September 2018), adjusted based on the IPCA.

(iv) The subsidiary PSES uses properties leased from Sistema Pitágoras de Ensino Sociedade Ltda. (a company that is controlled by members of the Company's Board of Directors). The agreement expires in August 2023, with a fixed monthly amount of R$ 206 (September 2018), adjusted based on the IPCA.

(v) On January 26, 2018, April 4, 2018 and July 31, 2018, donation agreements with charges were entered into between Kroton Educacional S.A. and Fundação Pitágoras, aiming to fulfill the social and institutional objectives of Fundação Pitágoras. Through September 30, 2018, R$ 455, R$ 539 and R$ 526 were disbursed under these agreements (R$ 1,612 in the period ended September 30, 2017).

a) Remuneration of key management personnel

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

(All amounts in thousands of reais unless otherwise stated)

At the Annual and Extraordinary General Meeting of Stockholders, the annual global remuneration of the Company's key management for the year ending December 31, 2018 was defined at a maximum of R$ 83,785 (R$ 71,464 in the year ended December 31, 2017), of which: R$ 75,771 consisted of fixed and variable remuneration, and R$ 8,014 consisted of a stock option plan. Key management remuneration is as follows:

TABLE 43 - Management remuneration

	9/30/2018	9/30/2017
Salaries	9,448	7,674
Benefits	390	289
Social charges	1,979	1,717
Variable remuneration (i)	7,787	11,943
Stock option plan	6,540	13,546
	26,144	35,169

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

24. NET REVENUE FROM SALES AND SERVICES

TABLE 44 - Composition of the net revenue

				Consolidated
	7/1 to 9/30/2018	9/30/2018	7/1 to 9/30/2017	9/30/2017
In-class higher education				
Gross revenue	1,291,755	4,242,185	1,337,849	4,204,465
Deductions from gross revenue				
Taxes	(29,950)	(109,882)	(34,566)	(117,517)
ProUni	(201,880)	(592,229)	(177,469)	(516,846)
Discounts	(83,902)	(312,702)	(89,613)	(287,167)
Net revenue	976,023	3,227,372	1,036,201	3,282,935
Distance-learning higher education				
Gross revenue	340,392	1,079,728	354,976	1,078,842
Deductions from gross revenue				
Taxes	(6,962)	(21,751)	(7,353)	(24,086)
ProUni	(67,743)	(198,092)	(60,747)	(166,685)
Discounts	(23,557)	(65,306)	(21,856)	(67,018)
Net revenue	242,130	794,579	265,020	821,053

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE PARENT COMPANY AND CONSOLIDATED INTERIM ACCOUNTING INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2018

(All amounts in thousands of reais unless otherwise stated)

				Consolidated
	7/1 to 9/30/2018	9/30/2018	7/1 to 9/30/2017	9/30/2017
Basic education				
Gross revenue	35,811	140,029	24,470	113,372
Deductions from gross revenue				
Taxes	(2,001)	(5,186)	(1,212)	(3,723)
Returns	(1,865)	(17,098)	(933)	(5,578)
Net revenue	31,945	117,745	22,325	104,071
Total				
Gross revenue	1,667,958	5,461,942	1,717,295	5,396,679
Deductions from gross revenue				
Taxes	(38,913)	(136,819)	(43,131)	(145,326)
ProUni	(269,623)	(790,321)	(238,216)	(683,531)
Discounts	(107,459)	(378,008)	(111,469)	(354,185)
Returns	(1,865)	(17,098)	(933)	(5,578)
Net revenue	1,250,098	4,139,696	1,323,546	4,208,059

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE PARENT COMPANY AND CONSOLIDATED
INTERIM ACCOUNTING INFORMATION FOR
THE QUARTER ENDED SEPTEMBER 30, 2018
(All amounts in thousands of reais unless otherwise stated)

25. COSTS AND EXPENSES BY NATURE

TABLE 45 - Composition of the costs and expenses by nature

				Parent company
	7/1 to 9/30/2018	9/30/2018	7/1 to 9/30/2017	9/30/2017
Salaries and payroll charges	(13,547)	20,290	(20,708)	31,773
Depreciation and amortization	(18,741)	(56,218)	(37,245)	(111,733)
Utilities, cleaning and security	(81)	(231)	(153)	(174)
Advertising and publicity	(15)	(233)	(16)	(241)
Consulting and advisory services	(730)	(1,175)	(300)	(2,122)
Taxes and contributions	(2)	(5)	(14)	(52)
Contingencies	31,604	43,772	26,172	56,744
Other income (expenses), net	(10,751)	1,350	612	2,606
	(12,263)	7,550	(31,652)	(23,199)
General and administrative expenses	(12,263)	7,550	(31,652)	(23,199)
	(12,263)	7,550	(31,652)	(23,199)

				Consolidated
	7/1 to 9/30/2018	9/30/2018	7/1 to 9/30/2017	9/30/2017
Salaries and payroll charges	(445,128)	(1,282,402)	(420,222)	(1,226,146)
Depreciation and amortization	(112,870)	(318,184)	(104,914)	(311,062)
Rental and condominium fees	(107,917)	(315,365)	(99,848)	(297,116)
Provision for doubtful accounts	(155,073)	(498,674)	(165,520)	(476,270)
Utilities, cleaning and security	(49,534)	(153,256)	(51,259)	(149,117)
Advertising and publicity	(73,721)	(275,479)	(56,196)	(234,075)
Third-party services	(2,688)	(7,586)	(4,430)	(14,545)
Consulting and advisory services	(24,790)	(100,396)	(33,526)	(101,757)
Cost of resales	(3,704)	(14,173)	(4,434)	(18,548)
Travel	(10,338)	(30,364)	(7,035)	(22,776)
Copyright	5,609	6,124	(471)	(3,693)
Taxes and contributions	(8,366)	(25,247)	(10,649)	(37,833)
Contingencies	46,101	68,304	29,587	65,089
Other income (expenses), net	(36,915)	(77,624)	(19,603)	(46,581)
	(979,334)	(3,024,322)	(948,520)	(2,874,430)
Cost of sales and services	(555,756)	(1,638,684)	(513,379)	(1,536,938)
Selling expenses	(244,956)	(823,080)	(235,684)	(750,738)
General and administrative expenses	(178,426)	(555,835)	(199,827)	(586,665)
Other operating income (expenses), net	(196)	(6,723)	370	(89)
	(979,334)	(3,024,322)	(948,520)	(2,874,430)

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE PARENT COMPANY AND CONSOLIDATED INTERIM ACCOUNTING INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2018
(All amounts in thousands of reais unless otherwise stated)

26. FINANCE RESULT

TABLE 46 - Composition of the finance results

				Parent company
	7/1 to 9/30/2018	9/30/2018	7/1 to 9/30/2017	9/30/2017
Finance income				
Income from financial investments and marketable securities	596	4,970	2,400	5,951
Other	-	-	3	26
	596	4,970	2,403	5,977
Finance costs				
Bank and collection fees	(3)	(7)	-	-
Interest and fines for late tax payments	(2)	(2)	-	-
Adjustment to contingencies	(27)	(512)	(798)	(3,414)
Other	(51)	(122)	(28)	(139)
	(83)	(643)	(826)	(3,553)
Finance results	513	4,327	1,577	2,424

				Consolidated
	7/1 to 9/30/2018	9/30/2018	7/1 to 9/30/2017	9/30/2017
Finance income				
Interest on monthly tuition fees	75,573	172,018	41,545	113,172
Income from financial investments and marketable securities	82,622	123,264	35,311	107,661
Discounts obtained	447	537	321	791
Other	5,012	15,303	8,043	29,907
	163,654	311,122	85,220	251,531
Finance costs				
Debentures - interest and costs	(55,976)	(62,105)	(6,384)	(27,227)
Adjustment of obligations due to purchase of subsidiaries	(3,520)	(7,929)	(1,762)	(8,651)
Bank and collection fees	(4,691)	(16,940)	(5,678)	(11,797)
Interest and fines for late payments	(626)	(1,672)	(218)	(2,371)
Interest and fines for late tax payments	(510)	(1,666)	(588)	(2,735)
Adjustment of contingencies	(528)	(4,190)	(2,080)	(10,042)
Other	(4,780)	(18,004)	(2,332)	(10,741)
	(70,631)	(112,506)	(19,042)	(73,564)
Finance results	93,023	198,616	66,178	177,967

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE PARENT COMPANY AND CONSOLIDATED
INTERIM ACCOUNTING INFORMATION FOR
THE QUARTER ENDED SEPTEMBER 30, 2018
(All amounts in thousands of reais unless otherwise stated)

27. SEGMENT INFORMATION

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

TABLE 47 - Segment reporting - Consolidated 2018

					Quarter ended 9/30/2018
	In-class higher education	Distance-learning higher education	Basic education	Unallocated	Total
Net revenue	976,061	242,092	31,945	-	1,250,098
Cost of sales and services rendered	(492,577)	(36,986)	(26,014)	(179)	(555,756)
	483,484	205,106	5,931	(179)	694,342
Operating expenses:					
Selling expenses	(184,478)	(54,543)	(5,935)	-	(244,956)
General and administrative expenses	(54,761)	(22,375)	(3,269)	(98,021)	(178,426)
Other expenses, net	-	-	-	(196)	(196)
Operating profit (loss) before finance results	244,245	128,188	(3,273)	(98,396)	270,764
Assets	12,828,132	5,707,524	6,440,070	9,460	24,985,185
Current and non-current liabilities	1,867,802	531,686	5,885,289	806,509	9,091,286

					Period ended 9/30/2018
	In-class higher education	Distance-learning higher education	Basic education	Unallocated	Total
Net revenue	3,227,409	794,541	117,746	-	4,139,696
Cost of sales and services rendered	(1,444,633)	(113,778)	(80,094)	(179)	(1,638,684)
	1,782,776	680,763	37,652	(179)	2,501,012
Operating expenses:					
Selling expenses	(601,762)	(205,862)	(15,456)	-	(823,080)
General and administrative expenses	(179,677)	(58,436)	(6,211)	(311,511)	(555,835)
Other expenses, net	-	-	-	(6,723)	(6,723)
Operating profit (loss) before finance results	1,001,337	416,465	15,985	(318,413)	1,115,374
Assets	12,828,132	5,707,524	6,440,070	9,460	24,985,185
Current and non-current liabilities	1,867,802	531,686	5,885,289	806,509	9,091,286

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE PARENT COMPANY AND CONSOLIDATED INTERIM ACCOUNTING INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2018

(All amounts in thousands of reais unless otherwise stated)

TABLE 48 - Segment reporting - Consolidated 2017

Quarter ended 9/30/2017

	In-class higher education	Distance-learning higher education	Basic education	Unallocated	Total
Net revenue	1,036,200	265,022	22,324	-	1,323,546
Cost of sales and services rendered	(450,025)	(45,381)	(17,973)	-	(513,379)
	586,175	219,641	4,351	-	810,167
Operating expenses:					
Selling expenses	(182,261)	(48,834)	(4,589)	-	(235,684)
General and administrative expenses	(67,080)	(18,378)	(831)	(113,538)	(199,827)
Other expenses, net	-	-	-	370	370
Gain (loss) on the sale of subsidiaries	-	-	-	22,900	22,900
Operating profit (loss) before finance results	336,834	152,429	(1,069)	(90,268)	397,926
Assets	12,042,258	5,632,960	112,747	879,797	18,667,762
Current and non-current liabilities	1,627,207	564,012	43,383	1,225,434	3,460,036

Period ended 9/30/2017

	In-class higher education	Distance-learning higher education	Basic education	Unallocated	Total
Net revenue	3,282,935	821,053	104,071	-	4,208,059
Cost of sales and services rendered	(1,343,459)	(130,752)	(62,727)	-	(1,536,938)
	1,939,476	690,301	41,344	-	2,671,121
Operating expenses:					
Selling expenses	(545,793)	(190,986)	(13,959)	-	(750,738)
General and administrative expenses	(206,109)	(50,091)	(4,009)	(326,456)	(586,665)
Other expenses, net	-	-	-	(89)	(89)
Gain (loss) on the sale of subsidiaries	-	-	-	22,900	22,900
Operating profit (loss) before finance results	1,187,574	449,224	23,376	(303,645)	1,356,529
Assets	12,042,258	5,632,960	112,747	879,797	18,667,762
Current and non-current liabilities	1,627,207	564,012	43,383	1,225,434	3,460,036

(All amounts in thousands of reais unless otherwise stated)

28. EARNINGS PER SHARE

a) Basic

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

TABLE 49 - Basic earnings per share

	9/30/2018	9/30/2017
Profit attributable to stockholders of the Company	1,290,580	1,491,659
Weighted average number of outstanding common shares (thousands)	1,629,518	1,625,143
Basic earnings per common share - R$	0.79	0.92

b) Diluted

The Company offers a stock option plan to the beneficiaries, by means of which it may issue shares at the time the option is exercised. At September 30, 2018, there are shares with the potential for dilution, since their average exercise price is lower than the average price of the Company's shares in the market.

TABLE 50 - Diluted earnings per share

	9/30/2018	9/30/2017
Profit attributable to stockholders of the Company	1,290,580	1,491,659
Weighted average number of outstanding common shares (thousands)	1,629,518	1,625,143
Possible increase in common shares (thousands)	28,192	17,649
Diluted earnings per common share - R$	0.78	0.91

29. FUTURE COMMITMENTS

The Company leases properties for its units and administrative buildings, under various operating agreements with different maturities, with are paid monthly. At September 30, 2018 and December 31, 2017, the total amounts equivalent to the total period of the agreements were as follows:

TABLE 51 - Future commitments

	Consolidated	
	9/30/2018	12/31/2017
Up to one year	370,913	382,913
From one year to five years	1,214,569	1,201,370
Over five years	1,000,062	1,090,780
	2,585,544	2,675,063

30. EVENTS AFTER THE REPORTING PERIOD

Acquisition of SOMOS

On April 23, 2018, the Contract for the Purchase and Sale of Shares and Other Covenants ("Contract") was executed regarding the purchase of ownership control of Somos Educação S.A. ("SOMOS") ("Operation").

Subsequent to the approval from the Brazilian Antitrust Agency (CADE) on September 19, 2018, the Company, on October 11, 2018, concluded the Transaction, being the sellers certain investment funds managed by Tarpon Gestora de Recursos S.A. ("Sellers").

Accordingly, the Company through its subsidiary SABER acquired from the Sellers 192,275,458 common shares issued by SOMOS, which represent approximately 73.35% of the total voting capital of SOMOS, for the price of R$ 23.75 per share, totaling R$ 4,566,542 ("Price"). Due to the adjustments agreed between the parties, the amount corresponding to R$ 7,701,907 was deducted from the lump sum of the Price ("Adjustment Amount") and allocated to the retained portion of the Price, and was subsequently definitely deducted from the retained portion of the Price, so that at that date R$ 4,116,542 was paid in a lump sum and R$ 450,000 will be paid through deposit in accounts in the name of the Sellers.

Within 30 days, SABER will submit to the Brazilian Securities Commission and Stock Exchange (B3 S.A. - Brasil, Bolsa, Balcão) the request for registration of a tender offer for the remaining shares of SOMOS, together with the request for cancelation of public company registration of SOMOS with CVM ("Tender Offer") and subsequent withdrawal of SOMOS from the New Market.

The acquisition will complement the operation of the Basic Education segment, through high quality products, services and digital platforms with national coverage. Besides being a significant strategic step, the acquisition of a prominent player in this segment will allow a greater market diversification and revenue streams to the Company, as well as provide synergies and efficiency gains in operations.

SOMOS and its subsidiaries are mainly engaged in (i) creating, selling and distributing textbooks, teaching aids and workbooks, especially with teaching, literary and informative content and teaching systems; (ii) offer, through its schools, basic education, pre-university preparation course, language courses for children and teenagers; (iii) teaching solutions for technical and higher education teaching, among other supplementary activities, such as the development of education technology with services for management and supplementary graduation. The complete portfolio of solutions is structured with the main brands, quality references, 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.

The table below summarizes the preliminary values of the assets acquired and liabilities at September 30, 2018:

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE PARENT COMPANY AND CONSOLIDATED INTERIM ACCOUNTING INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2018

(All amounts in thousands of reais unless otherwise stated)

ASSETS	SOMOS consolidated 9/30/2018	LIABILITIES AND EQUITY	SOMOS consolidated 9/30/2018
CURRENT ASSETS		CURRENT LIABILITIES	
Cash and cash equivalents	790,911	Trade and other accounts payable	506,417
Trade receivables	347,382	Trade payables - Suppliers financing	364,567
Inventories	469,349	Borrowings and debentures	338,502
Taxes recoverable	215,418	Taxes and contributions payable	13,742
Other assets	25,485	Income tax and social contribution payable	22,120
Total current assets	1,848,545	Dividends payable	821
		Accounts payable for acquisitions	23,710
NON-CURRENT ASSETS		Total current liabilities	1,269,879
Financial assets	11,078		
Taxes recoverable	4,157	NON-CURRENT LIABILITIES	
Deferred income tax and social contribution	273,961	Trade and other payables	36,207
Advances for future capital increase	18	Accounts payable for acquisitions	50,691
Judicial deposits	6,657	Borrowings and debentures	1,782,315
Other assets	14,556	Taxes and contributions payable	1,326
Investments	10,427	Provision for contingencies	39,399
Intangible assets	1,672,725	Deferred income tax and social contribution	178,448
Property and equipment	174,425	Total non-current liabilities	2,088,386
Total non-current assets	2,168,004		
		EQUITY	658,284
TOTAL ASSETS	4,016,549	TOTAL LIABILITIES AND EQUITY	4,016,549

Assignment of rights and obligations related to debentures by SOMOS to SABER

On November 8, 2018, the Board of Directors of Kroton, SABER and SOMOS approved:

(i) the assignment by SOMOS to SABER of all rights and obligations assumed by SOMOS related to: (a) the 1st issue of simple, non-convertible, unsecured debentures, with additional guarantee, in 2 series, for public distribution with restricted efforts of SOMOS, in the total amount of R$ 800 million; and (b) the 2nd issue of simple, non-convertible debentures, unsecured, with additional guarantee, single series, for public distribution with restricted efforts of SOMOS, in the total amount of R$ 800 million.

(ii) the assignment by Editora Scipione S.A. (“Scipione”), direct subsidiary of SOMOS, to SABER of all rights and obligations assumed by Scipione related to the 3rd issue of simple, non-convertible, unsecured debentures, with additional guarantee, in a single series, for public distribution with restricted efforts of

Scipione, in the total amount of R$ 100 million.

SABER will assume all rights and obligations of the issuer related to the 1st and 2nd issues of debentures of SOMOS, 3rd issue of Scipione in its 2nd, 3rd and 4th public issues of debentures, respectively.

Finally, the Board of Directors of the companies approved, among other matters: (i) the assumption by SABER of all rights and obligations, including but not limited to sureties, assumed by Editora Ática S.A. (“Ática”), Somos Sistemas (“Somos Sistemas”) and Scipione (together “Somos Guarantors”), related to the 1st and 2nd issues of SOMOS, with SABER becoming the only and exclusive guarantor of these debentures; (ii) the assumption by SABER, of all rights and obligations, including but not limited to sureties, assumed by Scipione Guarantors, related to the 3rd issue of Scipione, with SABER becoming the only and exclusive guarantor of these debentures; and (iii) the assumption, by SABER, of all rights and obligations, including but not limited to sureties, assumed by SOMOS related to the 1st issue of simple, non-convertible debentures, unsecured, with additional guarantee, single series, for public distribution with restricted efforts of Saraiva Educação S.A. (“Saraiva 1st Issue”, “Saraiva 1st Issue Debentures” and “Saraiva”, respectively, where Saraiva 1st Issue Debentures together with Somos 1st Issue Debentures, Somos 2nd Issue Debentures and Scipione 3rd Issue Debentures, the “Debentures”), with the Company becoming the only and exclusive guarantor of the Saraiva 1st Issue Debentures.

Mandatory tender offer for the acquisition of up to the total common shares of SOMOS

On November 8, 2018, Saber’s Board of Directors approved the mandatory tender offer for the acquisition of up to the total common shares of SOMOS, as a result of the completion of the Transaction, together with the request for cancelation of public company registration and subsequent withdrawal of SOMOS from the New Market segment of B3 (“Tender Offer”).

The tender offer intends to acquire up to 69,853,431 common shares, representing 26.65% of the total voting capital of SOMOS, for the price of R$ 23.71 per share. Of the price offered, R$ 21.37 will be paid in a lump sum and R$ 2.32 will be retained, considering the same terms and conditions of the Transaction. The Tender Offer will be submitted to the prior approval and registration by the CVM.

Comments on performance of past business projections:

In item 11.1 of the Reference Form, the Company provided projections for the major profit or loss lines in 2018 under two perspectives: one considering the consolidated balances and the other excluding the effects of opening of new On-Campus units and new Distant Learning centers. The follow- up of these two perspectives is as follows:

Consolidated Results:

	2018 - Consolidated (Projection)	1Q18 - Consolidated (Realized)	2Q18 - Consolidated (Realized)	3QH18 - Consolidated (Realized)	9H18 - Former Greenfields (Realized)
Net Revenues	R$ 5,480 million	R$ 1,363 million	R$ 1,526 million	R$ 1,250 million	R$ 4,140 million
EBITDA	R$ 1,992 million	R$ 569 million	R$ 565 million	R$ 471 million	R$ 1.605 million
EBITDA Margin	36.3%	41.8%	37.0%	37.7%	38.8%
Interest and late payments on tuitions	R$ 193 million	R$ 41 million	R$ 43 million	R$ 88 million	R$ 172million
Non-recurring costs and expenses	R$ 283 million	R$ 45 million	R$ 77 million	R$ 64 million	R$ 186 million
Adjusted EBITDA	R$ 2.275 million	R$ 615 million	R$ 642 million	R$ 535 million	R$ 1.792 million
Adjusted EBITDA Margin	41.5%	45.1%	42.0%	42.8%	43.3%
Net profit	R$ 1.582 million	R$ 475 million	R$ 467 million	R$ 348 million	R$ 1.291 million
Net margin	28.9%	34.9%	30.6%	27.8%	31.2%
Amortization of intangible assets	R$ 74 million	R$ 18 million	R$ 18 million	R$ 19 million	R$ 55 million
Net effect of issue of debentures	-	-	-	R$ 9 million	R$ 9 million
Adjusted profit	R$ 1.940 million	R$ 539 million	R$ 562 million	R$ 440 million	R$ 1.542 million
Adjusted net margin	35.4%	39.5%	36.8%	35.2%	37.2%
Capex (total)	13.5% of net revenue	8.4% of net revenue	10.7% of net revenue	15.4% of net revenue	11.4% of net revenue

Considering the new funding process for the year, in the first half of the year, this period offers a very significant contribution to the year's result. Accordingly, in 1Q18, Kroton achieved 25% of net revenue and 27% of the adjusted managerial EBITDA included in the 2018 guidance.

The second quarter is also very relevant for the year results, since it presents a higher average ticket, considering that it is not affected by scholarships and occasional funding discounts. The 2Q18 was responsible for 28% of net revenue and 28% of the Adjusted Managerial EBITDA projected for the year.

The third quarter concentrates the enrollments related to the second funding process for the year, historically lower than the process at the beginning of the year. Therefore, the 3Q18 was responsible for 23% of net revenue and 24% of the Adjusted Managerial EBITDA expected for 2018.

Accordingly, in the year to date, the Company has already achieved 76% of net revenue, 79% of Adjusted Managerial EBITDA and 79% of Adjusted Profit expected for the 2018 consolidated results.

Former Greenfields Results

	2018 - Former Greenfields (Projection)	1Q18 - Former Greenfields (Realized)	2Q18 - Former Greenfields (Realized)	3Q18 - Former Greenfields (Realized)	9H18 - Former Greenfields (Realized)
Net Revenues	R$ 5.440 million	R$ 1.358 million	R$ 1.516 million	R$ 1.236 million	R$ 4.111 million
EBITDA	R$ 2.203 million	R$ 593 million	R$ 605 million	R$ 493 million	R$ 1.691 million
EBITDA Margin	40.5%	43.7%	39.9%	39.9%	41.1%
Interest and late payments on tuitions	R$ 192 million	R$ 41 million	R$ 43 million	R$ 87 million	R$ 171 million
Non-recurring costs and expenses	R$ 147 million	R$ 36 million	R$ 47 million	R$ 53 million	R$ 137 million
Adjusted EBITDA	R$ 2.350 million	R$ 630 million	R$ 652 million	R$ 546 million	R$ 1.828 million
Adjusted EBITDA Margin	43.2%	46.4%	43.0%	44.2%	44.5%
Net profit	R$ 1.810 million	R$ 500 million	R$ 508 million	R$ 372 million	R$ 1.380 million
Net margin	33.3%	36.8%	33.5%	30.1%	33.6%
Amortization of intangible assets	R$ 74 million	R$ 18 million	R$ 18 million	R$ 19 million	R$ 55 million
Net effect of issue of debentures	-	-	-	R$ 9 million	R$ 9 million
Adjusted profit	R$ 2.030 million	R$ 555 million	R$ 574 million	R$ 453 million	R$ 1.582 million
Adjusted net margin	37.3%	40.9%	37.8%	36.7%	38.5%

In the Ex-Greenfields perspective, in 1Q18 Kroton also achieved 25% of net revenue and 27% of the Adjusted Managerial EBITDA projected for 2018. The 2Q18 was responsible for 28% of net revenue and 28% of the Adjusted Managerial EBITDA as expected for the year.

In 3Q18, the Company delivered 23% of estimated Net Revenue and 23% of estimated Adjusted Managerial EBITDA, leading Kroton to achieve in the accumulated for the year through September, 76% of net revenue, 78% of the Adjusted Managerial EBITDA and 78% of the Profit included in the guidance.

Other information considered significant by the Company

1. DISCLOSURE OF EBITDA

Pursuant to CVM Instruction 527/12, the Company adopted the disclosure of non-GAAP information as additional information to its quarterly information, presenting the EBITDA - Earnings Before Interest, Income Tax including Social Contribution on Profit, Depreciation and Amortization, for the periods ended September 30, 2018 and 2017.

In general, EBITDA is an alternative measure of the Company's operating cash generation, corresponding to how much the company generates of resources from its operating activities, without considering the financial and tax effects. It should be pointed out that this does not represent the cash flow for the years presented, and should not be considered as a base for distribution of dividends, an alternative to the profit for the year or as an indicator of liquidity.

	Consolidated	
	9/30/2018	9/30/2017
Profit for the year	1,290,580	1,491,659
(+) Income tax and social contribution (Note 20)	23,410	42,837
(+/-) Finance results (Note 26)	(198,616)	(177,967)
(+) Amortization and depreciation (Note 25)	318,184	311,062
EBITDA	1,433,558	1,667,591
(-) Non-recurring items (i)	186,098	135,774
Adjusted EBITDA	1,605,576	1,780,763
(+) Late payment interest on monthly fees (Note 26)	172,018	113,172
Adjusted Managerial EBITDA	1,791,674	1,916,537

(i) Pursuant to Article 4 of CVM Instruction 527/12, the Company may disclose adjusted EBITDA adjusted for items that contribute to the potential for gross generation of cash. The table below presents the non-recurring items:

	Consolidated	
	9/30/2018	9/30/2017
Employment terminations	48,762	33,268
Restructuring of units	26,535	27,344
Merges & acquisitions and expansion	76,172	60,836
Other projects	34,629	37,227
Capital gain - sale of subsidiaries	-	(22,901)
Total non-recurring items	186,098	135,774

The Employment terminations, are related to the reduction of working hours generated by initiatives to increase productivity, such as the operational survey software and the mentoring model in distance learning; and Mergers & acquisitions and expansions which includes the costs related to the expansion projects that are accelerating in these last months, mainly the acquisition of Somos, Colégio Lato Sensu in Basic Teaching and a Higher Education unit, in João Pessoa. The Company has also carried out a series of projects related to the digital transformation and to the work plans in different segments that impacted the line Other projects.

In addition, total non-recurring items include the Restructuring of in-class units, a project according to the guidelines established in the last strategic planning aimed at ensuring a higher level of satisfaction and comfort for students.

Report on review of quarterly information

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

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of Kroton Educacional S.A. ("Company"), included in the Quarterly Information Form (ITR) for the quarter ended September 30, 2018, comprising the balance sheet as at that date and the statements of income and comprehensive income for the quarter and nine-month period then ended, and the statements of changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting practices and other explanatory information.

Management is responsible for the preparation of the parent company and consolidated interim accounting information in accordance with the accounting standard CPC 21, Interim Financial Reporting, issued by the Brazilian Accounting Pronouncements Committee (CPC), and the International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as the presentation of this information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim accounting information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Reviews of Interim Financial Information (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists in 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 Brazilian and International 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.

Conclusion on the interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying parent company and consolidated interim accounting information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the CVM.

Other matters

Statements of value added

We have also reviewed the parent company and consolidated statements of value added for the nine-month period ended September 30, 2018. These statements are the responsibility of the Company's management, are required to be presented in accordance with standards issued by the CVM applicable to the preparation of Quarterly Information, and are considered supplementary information under IFRS, which do not require the presentation of the statements of value added. These statements have been submitted 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 have not been prepared, in all material respects, in a manner consistent with the parent company and consolidated interim accounting information taken as a whole.

Belo Horizonte, November 9, 2018

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Marcos Donizete Panassol
Contador CRC 1SP155975/O-8

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 September 30, 2018.

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 PricewaterhouseCoopers Auditores