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

Kroton Educacional S.A.

Individual and Consolidated
Interim Financial Information for the Quarter Ended March 31, 2019 and Report on Review of Interim Financial Information

Deloitte Touche Tohmatsu Auditores Independentes

Deloitte.

Deloitte Touche Tohmatsu
Rua Antônio de Albuquerque, 330 - 12º andar
30112-010 - Belo Horizonte - MG
Brasil

Tel.: + 55 (31) 3269-7400
Fax: + 55 (31) 3269-7470
www.deloitte.com.br

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Kroton Educacional S.A. ("Company"), identified as Parent and Consolidated, respectively, included in the Interim Financial Information Form (ITR), for the quarter ended March 31, 2019, which comprises the balance sheet as at March 31, 2019 and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the quarter then ended, including the explanatory notes.

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

Scope of review

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

Conclusion on the individual and consolidated interim financial information

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

Other matters

Statements of value added

We have also reviewed the individual and consolidated statements of value added ("DVA") for the quarter ended March 31, 2019, prepared under the responsibility of the Company's Management, the presentation of which in the interim financial information is required by the standards issued by CVM applicable to the preparation of Interim Financial Information (ITR) and is considered as supplemental information for International Financial Reporting Standards (IFRS), issued by IASB, which do not require the presentation of a DVA. These statements were subject to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they are not prepared, in all material respects, in relation to the interim financial information taken as a whole.

Amounts corresponding to the year ended December 31, 2018 and quarter ended March 31, 2018

The amounts corresponding to the year ended December 31, 2018 and quarter ended March 31, 2018, presented for purposes of comparison, were previously audited and reviewed by other independent auditors, who issued unqualified opinions thereon on March 29, 2019 and May 11, 2018, respectively.

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

Belo Horizonte, May 15, 2019

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Roberto Torres dos Santos
Engagement Partner

2019-SPO-2637 VF.docx

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

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

		Parent		Consolidated	
ASSETS	Notes	03/31/2019	12/31/2018	03/31/2019	12/31/2018
CURRENT ASSETS					
Cash and cash equivalents	7	11,135	10,057	1,484,331	1,485,611
Securities	8	-	-	527,752	1,098,185
Trade receivables	9	-	20	2,306,023	1,940,313
Inventories	10	-	-	390,234	370,657
Advances	-	-	-	83,603	69,239
Recoverable taxes	11	3,949	3,913	334,169	315,169
Receivables from sale of subsidiaries	12	-	-	133,706	132,854
Other receivables	13	95	179	180,410	150,937
Related parties	27	407	-	-	304
Total current assets		15,586	14,169	5,440,228	5,563,269
NONCURRENT ASSETS					
Securities	8	-	-	11,439	11,774
Trade receivables	9	-	-	716,268	694,283
Advances	-	-	-	1,680	1,680
Recoverable taxes	11	-	-	6,429	5,829
Receivables from sale of subsidiaries	12	-	-	367,574	361,551
Other receivables	13	-	-	65,815	58,125
Guarantee against losses in tax, labor and civil contingencies	22	43,483	43,509	952,487	933,219
Escrow deposits	22	308	298	111,173	102,656
Deferred income tax and social contribution	24	-	-	614,605	515,900
Investments	14	16,579,282	16,539,405	-	-
Property, plant and equipment	15	-	-	5,454,185	2,485,643
Intangible assets	16	68,044	69,560	19,904,625	19,911,110
Total noncurrent assets		16,691,117	16,652,772	28,206,280	25,081,770
TOTAL ASSETS		16,706,703	16,666,941	33,646,508	30,645,039

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

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

		Parent		Consolidated	
LIABILITIES AND EQUITY	Notes	03/31/2019	12/31/2018	03/31/2019	12/31/2018
CURRENT LIABILITIES					
Borrowings and financing	17	-	-	2,915	4,671
Debentures	17	-	-	391,269	522,846
Trade payables	-	218	482	492,381	474,980
Trade payables purchaser’s risk	18	-	-	328,506	391,974
Leases	19	-	-	219,092	-
Payroll and related taxes	20	-	2,970	468,748	508,251
Income tax and social contribution payable	-	-	-	29,979	27,875
Taxes payable	-	679	8	87,460	75,676
Advances from customers	-	1	-	297,156	303,857
Taxes in installments	-	-	-	14,515	14,521
Payables - acquisitions	21	-	-	121,530	132,440
Dividends payable	-	43,054	26,877	43,054	27,178
Other payables	-	5	82	43,197	81,229
Total current liabilities		43,957	30,419	2,539,802	2,565,498
NONCURRENT LIABILITIES					
Borrowings and financing	17	-	-	31,171	50,445
Debentures	17	-	-	7,110,117	7,105,660
Leases	19	-		3,052,197	-
Payables - acquisitions	21	-	-	208,224	193,357
Provision for tax, labor, and civil contingencies	22	47,010	63,989	401,080	422,933
Liabilities assumed in business combination	22	-	-	3,197,389	3,213,048
Taxes in installments	-	-	-	25,049	27,299
Deferred income tax and social contribution	24	663,761	669,873	1,002,095	1,042,115
Other payables		21	16	16,601	17,854
Total noncurrent liabilities		710,792	733,878	15,043,923	12,072,711
TOTAL LIABILITIES		754,749	764,297	17,583,725	14,638,209
EQUITY	25				
Issued capital		5,011,677	4,425,677	5,011,677	4,425,677
Capital reserves		6,374,271	6,379,742	6,374,271	6,379,742
Treasury shares		(187,710)	(190,280)	(187,710)	(190,280)
Earnings reserves		4,753,716	5,287,505	4,753,716	5,287,505
		15,951,954	15,902,644	15,951,954	15,902,644
Noncontrolling interests		-	-	110,829	104,186
Total equity		15,951,954	15,902,644	16,062,783	16,006,830
TOTAL LIABILITIES AND EQUITY		16,706,703	16,666,941	33,646,508	30,645,039

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

INCOME STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018
(In thousands of Brazilian reais, except earnings per share - R$)

		Parent		Consolidated	
	Notes	03/31/2019	03/31/2018	03/31/2019	03/31/2018
NET OPERATING REVENUE					
Higher education	28	-	-	1,265,264	1,327,316
K-12 education	28	-	-	573,843	36,009
		-	-	1,839,107	1,363,325
COST OF SALES AND SERVICES					
Cost of services	29	-	-	(561,681)	(485,457)
Cost of sales	29	-	-	(120,558)	(5,094)
		-	-	(682,239)	(490,551)
GROSS PROFIT		-	-	1,156,868	872,774
OPERATING INCOME (EXPENSES)					
Selling expenses	29	-	-	(351,037)	(275,095)
General and administrative expenses	29	877	50,856	(415,241)	(171,332)
Other operating expenses, net	29	-	-	2,462	(730)
Share of profit (loss) of investees	14	231,901	417,265	577	-
OPERATING PROFIT BEFORE FINANCE INCOME (COSTS)		232,778	468,121	393,629	425,617
		232,778	468,121	393,629	425,617
FINANCE INCOME (COSTS)					
Finance Income	30	142	2,939	108,212	69,904
Finance costs	30	(106)	(367)	(245,355)	(10,690)
		36	2,572	(137,143)	59,214
OPERATING PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		232,814	470,693	256,486	484,831
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	24	(685)	(1,390)	(53,240)	(20,381)
Deferred	24	6,112	6,112	46,903	10,965
		5,427	4,722	(6,337)	(9,416)
PROFIT FOR THE YEAR		238,241	475,415	250,149	475,415
ATTRIBUTABLE TO					
Owners of the Company		238,241	475,415	238,241	475,415
Noncontrolling interests		-	-	11,908	-
Basic earnings per common share - R$	32	0.15	0.29	0.15	0.29
Diluted earnings per common share - R$	32	0.15	0.29	0.15	0.29

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018
(In thousands of Brazilian reais - R$)

	Parent		Consolidated	
	03/31/2019	03/31/2018	03/31/2019	03/31/2018
Profit for the period	238,241	475,415	250,149	475,415
Other comprehensive income	-	-	-	-
CONSOLIDATED COMPREHENSIVE INCOME FOR THE PERÍODO	238.241	475,415	250,149	475,415
Attributable to owners of the Company	238,241	475,415	238,241	475,415
Attributable to noncontrolling interests	-	-	11,908	-

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

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018
(In thousands of Brazilian reais - R$)

	Share capital	Capital reserve	Earnings reserves	Treasury shares	Retained earnings	Total equity	Noncontrolling interests	Total equity
BALANCE AT DECEMBER 31, 2017	4,363,825	6,339,682	4,506,725	(2,506)	-	1,5207,726	-	1,5207,726
Comprehensive income for the period								
Profit for the period	-		-	-	475,415	475,415	-	475,415
Total comprehensive income for the period	-	-	-	-	475,415	475,415	-	475,415
Shareholder contributions and distributions to shareholders								
Capital increase	53,565	-	(50,000)	-	-	3,565	-	3,565
Share buyback into treasury	-	-	-	(18,131)	-	(18,131)	-	(18,131)
Recognized granted stock options	-	8,551	-	-	-	8,551	-	8,551
Treasury shares sold	-	(290,000)	-	1,579	-	1,289	-	1,289
Dividends	-	-	-	-		-		-
Total shareholder contributions and distributions to shareholders	53,565	8,261	(50,000)	(16,552)	-	(4,726)	-	(4,726)
BALANCE AT MACH 31, 2018	4,417,390	6,347,943	4,456,725	(19,058)	475,415	15,678,415	-	15,678,415
	Share capital	Capital reserve	Earnings reserves	Treasury shares	Retained earnings	Total equity	Noncontrolling interests	Total equity
BALANCE AT DECEMBER 31, 2018	4,425,677	6,379,742	5,287,505	(190,280)	-	15,902,644	104,186	16,006,830
Effects of the restatement (Note 2.1)	-	-	(186,030)	-	-	(186,030)	(5,492)	(191,522)
BALANCE AT JANUARY 1, 2019	4,425,677	6,379,742	5,101,475	(190,280)	-	1,5716,614	98,694	1,5815,308
Comprehensive income for the period								
Profit for the period	-		-	-	238,241	238,241	11,908	250,149
Total comprehensive income for the period	-	-	-	-	238,241	238,241	11,908	250,149
Shareholder contributions and distributions to shareholders								
Capital increase	586,000	-	(586,000)	-	-	-	-	-
Share buyback into treasury	-	-	-	-	-	-	227	227
Recognized Treasury shares	-	(8,348)	-	-	-	(8,348)	-	(8,348)
Treasury shares sold	-	2,877	-	2,570	-	5,447	-	5,447
Total shareholder contributions and distributions to shareholders	586,000	(5,471)	(586,000)	2,570	-	(2,901)	227	(2,674)
BALANCE AT MARCH 31, 2019	5,011,677	6,374,271	4,515,475	(187,710)	238,241	15,951,954	110,829	16,062,783

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

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS FROM OPERATING ACTIVITIES
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018
(In thousands of Brazilian reais - R$)

	Notes	Parent		Consolidated	
		03/31/2019	03/31/2018	03/31/2019	03/31/2018
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax and social contribution		232,814	470,693	256,486	484,831
Adjustments to profit before income tax and social contribution					
Depreciation and amortization	15 e 16	19,492	18,681	262,931	102,223
Allowance for doubtful debts	9	-	-	210,872	160,831
Provision for (Reversal of) tax, labor, and civil contingencies	22	(16,953)	(11,842)	(29,506)	(20,998)
Allowance for inventory losses		-	-	2,145	109
Financial charges on borrowings and debentures	17	-	-	136,633	5,789
Financial charges arising on acquisitions	21	-	-	2,571	345
Financial charges on leases	19	-	-	75,824	-
Stock option granting		8,348	8,551	8,348	8,551
Gain on sale or disposal of assets and other investments		-	-	8,177	3,665
Income from securities	30	-		(30,911)	(25,723)
Share of results of investees	14	(231,901)	(417,265)	(577)	-
Changes in operating assets and liabilities:					
(Increase) decrease in trade receivables		20	-	(596,252)	(547,438)
(Increase) decrease in inventories		-	-	(21,722)	(672)
(Increase) decrease in advances		-	29	(14,348)	21,278
(Increase) decrease in recoverable taxes		(36)	(521)	(1,691)	39,086
(Increase) decrease in escrow deposits		(10)	-	6,075	(23,717)
(Increase) decrease in related parties		(407)	-	304	-
(Increase) decrease in other receivables		84	105	(36,145)	(30,667)
(Decrease) increase in trade payables		(264)	(152)	17,079	(16,361)
(Decrease) increase in trade payables purchaser’s risk		-	-	(63,468)	(25,683)
(Decrease) increase in finance leases		-	-	102,847	-
(Decrease) increase in payroll and related taxes		(2,970)	(66,336)	(40,487)	(43,278)
(Decrease) increase in taxes payable		(14)	(456)	(131,276)	(21,256)
(Decrease) increase in advances from customers		1	-	(6,701)	(27,838)
(Decrease) increase in taxes in installments		-	-	(3,256)	(7,314)
Payment of provision for tax, labor, and civil contingencies	22	-	(5)	(37,212)	(18,793)
(Decrease) increase in other payables		(4,149)	8,046	(60,942)	14,486
Cash generated by (used in) operating activities		**4,055**	**9,528**	**15,798**	**31,456**
Income tax and social contribution paid		-	-	(17,573)	(39,818)
Interest on borrowings and debentures paid	17	-	-	(265,641)	(5,916)
Net cash (used in) generated by operating activities		**4,055**	**9,528**	**(267,416)**	**(14,278)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of securities		-	-	601,679	102,712
Increase of property, plant and equipment	15	-	-	(197,863)	(72,850)
Increase of intangible assets	16	-	-	(75,932)	(58,051)
Payables for acquisitions	21	-	-	(57,327)	(7,700)
Acquisitions of subsidiaries		(100)	-	-	-
Net cash (used in) generated by investing activities		**(100)**	**-**	**270,557**	**(35,889)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital increase		-	3,565	-	3,565
Sale (buyback) of shares into treasury		(2,877)	(16,552)	(2,877)	(16,552)
Repayment of borrowings and financing and debentures	17	-	-	(1,544)	(50,381)
Net cash used in financing activities		**(2,877)**	**(12,987)**	**(4,421)**	**(63,368)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, NET		1,078	(3,459)	(1,280)	(113,535)
Cash and cash equivalents at the beginning of the period	7	10,057	200,570	1,485,611	921,328
Cash and cash equivalents at the end of the period	7	11,135	197,111	1,484,331	807,793
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, NET		**1,078**	**(3,459)**	**(1,280)**	**(113,535)**

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

STATEMENTS OF VALUE ADDED
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018
(In thousands of Brazilian reais - R$)

	Parent		Consolidated	
	03/31/2019	03/31/2018	03/31/2019	03/31/2018
REVENUE				
Higher education	-	-	1,265,264	1,327,316
K-12 education	-	-	573,843	36,009
Other income	-	-	45	(756)
Recognition of allowance for doubtful debts	-	-	(210,872)	(160,831)
INPUTS PURCHASED FROM THIRD PARTIES				
Cost of sales and services	-	-	(120,558)	(1,805)
Supplies, power, outside services and other inputs	18,665	11,755	(139,295)	(190,949)
GROSS VALUE ADDED	18,665	11,755	1,368,427	1,008,984
Depreciation and amortization	(19,492)	(18,681)	(262,931)	(102,223)
NET VALUE ADDED	(827)	(6,926)	1,105,496	906,761
WEALTH RECEIVED IN TRANSFER				
Share of profit (loss) of investees	231,901	417,265	577	-
Finance income	142	2,939	108,212	69,904
Total wealth for distribution	231,216	413,278	1,214,285	976,665
Personnel:				
Direct compensation	(599)	(53,354)	349,139	258,585
Benefits	-	-	37,881	20,857
Payroll taxes	(1,107)	(4,430)	131,699	91,224
Taxes, fees and contributions				
Federal	(5,426)	(4,722)	14,574	9,597
State	1	2	6,648	73
Municipal	-	-	2,127	8,133
Lenders and lessors:				
Finance costs	106	367	245,355	10,690
Rentals	-	-	142,816	101,012
Copyrights	-	-	33,897	1,079
Shareholders:				
Earnings retained in the period	238,241	475,415	250,149	475,415
TOTAL WEALTH DISTRIBUTED	231,216	413,278	1,214,285	976,665

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

1. GENERAL INFORMATION

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

The Group owns 76 companies, including Kroton Educacional S.A., and consists of 16 sponsors of college education entities (two of which incorporated as publicly held corporations), 187 college education units, distributed among 15 Brazilian states and 74 Brazilian cities, as well as 2,258 distance learning (EAD) Graduation Centers accredited by the Ministry of Education (MEC), located in all Brazilian states and the Federal District. In K-12 Education, the Company also owns 3,701 associated schools nationwide, including Somos.

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

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

In the year ended December 31, 2018, the Company acquired the Somos Group as part of its growth and expansion plan. The Somos Group also has shares trade in the São Paulo Stock Exchange under ticker symbol SEDU3.

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

This individual and consolidated interim financial information was approved by the Company's Board of Directors and authorized for issue on May 15, 2019.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

In the period ended March 31, 2018, the Company does not have any subsidiaries and, as a result, the comparative balance of profit or loss is not being disclosed. Beginning April 10, 2018 with the acquisition of Colégios Leonardo da Vinci, the Company started to state consolidated information.

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

The accounting policies adopted in the preparation of this quarterly information are consistent with the policies disclosed in note 2 to the financial statements for the year ended December 31, 2018, except for the updating of the accounting policies to take into consideration the adoption of IFRS 16/CPC 06 (R2) *Leases*, which was adopted by the Company beginning January 1, 2019.

IFRS 16 *Leases*

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

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

a) recognition of right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the minimum future lease payments;

b) recognition of depreciation expenses of right-of-use assets and interest expenses on lease liabilities in the consolidated income statement; and

c) segregation of the total cash amount paid in these transactions into principal (disclosed in financing activities) and interest (disclosed in operating activities) in the consolidated statement of cash flows.

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

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

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

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

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

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

- Apply a single discount rate to each lease portfolio with reasonably similar characteristics; As a result, Management obtained an incremental borrowing rate, measured at January 1, 2019, applicable to each portfolios of leased assets. Through this methodology, the Company obtained an weighted average rate of 9.67%;

- Those contracts for which the lease term ends within 12 months of the date of initial application of the standard were recognized;

- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application; and

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

- Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

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

	Consolidated		
	12/31/2018	Opening adjustment	01/01/2019
Current assets			
Trade receivables	1,940,313	964	1,941,277
Noncurrent assets			
Trade receivables	694,283	7,655	701,938
Property, plant and equipment	2,485,643	2,906,588	5,392,231
Deferred taxes	515,900	89,086	604,986
Total assets	5,636,139	3,004,293	8,640,432
Current liabilities			
Leases payable	-	204,513	204,513
Noncurrent liabilities			
Leases payable		2,985,743	2,985,743
Deferred taxes	1,042,115	67	1,042,182
Total liabilities	1,042,115	3,190,323	4,232,438
Equity			
Retained earnings	5,287,505	(186,030)	5,101,475
Total equity	5,287,505	(186,030)	5,101,475

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

			Consolidated
	IFRS 16	(-) Present value adjustment	03/31/2019
Up to one year	516,066	(296,975)	219,092
One year up to five years	1,991,476	(683,031)	1,308,446
Over five years	2,952,254	(1,208,502)	1,743,752
	5,459,796	(2,188,508)	3,271,289

Additionally, the table below summarizes the accounting impacts of adopting this new accounting standard on the income statement for the year and the statement of cash flows for the first quarter ended March 31, 2019:

	Consolidated
	03/31/2019
	(IFRS 16)
Income statement for the year	
Depreciation and amortization	75,154
Finance costs	75,824
Finance income	(196)
Other gains and losses	(2,453)
Deferred income tax and social contribution	7,281
Profit for the period	155,610

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

3. BUSINESS COMBINATIONS

Faculdade Metropolitana

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

The table below shows the preliminary allocation of the acquisition price of goodwill arising on future earnings:

	CEMAR	CEPAR	CESUPAR	TOTAL
Acquisition price	30,000	17,000	13,000	60,000
Equity	2,802	2,371	1,262	6,435
Present value adjustment	(2,195)	(1,244)	(951)	(4,391)
Excess acquisition price above the fair value preliminarily classified as goodwill	25,002	13,385	10,787	49,174
Goodwill allocation:				
Goodwill	25,002	13,385	10,787	49,174
	25,002	13,385	10,787	49,174

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

The table below summarizes the main balance sheet groups, at the date of acquisition, to allow a better understanding of the financial information for the period ended March 31, 2019.

	CEMAR	CEPAR	CESUPAR	Faculdade Metropolitana
Acquisition date	01/21/2019	01/21/2019	01/21/2019	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	1,168	200	213	1,581
Trade receivables	1,170	723	412	2,305
Advances	6	3	7	16
Recoverable taxes	176	120	40	336
Other receivables	-	18	-	18
Related parties	-	1,000	-	1,000
Total current assets	2,520	2,064	672	5,256
NONCURRENT ASSETS				
Trade receivables	10	-	-	10
Guarantee against losses in tax, labor and civil contingencies	16,880	-	-	16,880
Escrow deposits	100	-	-	100
Property, plant and equipment	2,141	544	793	3,478
Total noncurrent assets	19,131	544	793	20,468
TOTAL ASSETS	21,651	2,608	1,465	25,724
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payables	181	56	85	322
Payroll and related taxes	699	170	115	984
Taxes payable	88	11	3	102
Taxes in installments	1,000	-	-	1,000
Total current liabilities	1,968	237	203	2,408
NONCURRENT LIABILITIES				
Provision for civil, labor, and tax contingencies	16,880	-	-	16,880
Total noncurrent liabilities	16,880	-	-	16,880
TOTAL LIABILITIES	18,848	237	203	19,288
EQUITY	2,803	2,371	1,262	6,436
TOTAL LIABILITIES AND EQUITY	21,651	2,608	1,465	25,724
Net assets	(2,803)	(2,371)	(1,262)	(6,436)
Acquisition price	30,000	17,000	13,000	60,000
Present value adjustment	(2,195)	(1,244)	(951)	(4,390)
Excess acquisition price above the fair value preliminarily classified as goodwill	25,002	13,385	10,787	49,174
Acquired by subsidiary	EDE	EDE	EDE	

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

Acquisitions made in 2018

The allocations were made on a preliminary basis, taking into account the acquisitions made beginning the second quarter of 2018. The Company elected to allocated within up to twelve months of the acquisition deadline.

4. FINANCIAL RISK MANAGEMENT

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

4.1. Financial risk factors

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

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

a) Policy on the use of derivative financial instruments

The Company does not have any derivative transactions.

b) Market risk – interest rate-related cash flow risk

This risk arises from the possibility of the Group incurring losses because of interest rate fluctuations that increase finance costs related to borrowings and financing and debentures raised in the market and payables for acquisition of third parties in installments. The Company continuously monitors market interest rates to assess whether new transactions should be contracted to hedge against the volatility of interest rates.

Contract interest rates are shown below:

			Consolidated
	03/31/2019	12/31/2018	Interest rate
Borrowings and financing			
Leases	34,086	55,116	IPCA
Debentures	7,393,216	7,519,865	100% CDI + interest of 0.75% to 2% p.a.
Debentures – SABER 1st issue, 3rd series	108,170	108,641	IPCA + 6.72% p.a.
Payables for acquisitions	183,545	177,753	CDI
Payables for acquisitions	117,640	117,000	IPCA
Payables for acquisitions (i)	28,569	31,044	Other
Total	7,865,226	8,009,419	

(i) Refers to the present value of minimum payments of the lease contracts entered into by the Company, which are subject to adjustments based on the prevailing inflation indices.

(ii) Refer primarily to the acquisitions adjusted using the SELIC rate (Central Bank's policy rate).

c) Credit risk

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

d) Liquidity risk

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

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

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

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

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

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

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

Financial liabilities by maturity

	Consolidated			
	Less than 1 year	1-2 years	Over 2 years	Total
As at March 31, 2019				
Trade payables	492,381	-	-	492,381
Trade payables - purchaser's risk	328,506	-	-	328,506
Borrowings and financing	2,915	2,565	28,606	34,086
Debentures	391,269	2,630,930	4,479,187	7,501,386
Payables for acquisitions	121,530	91,159	117,065	329,754
	1,336,601	2,724,654	4,624,858	8,686,113

Financial liabilities by maturity - Budgeted

	Consolidated			
	Less than 1 year	1-2 years	Over 2 years	Total
As at March 31, 2019				
Trade payables	492,381	-	-	492,381
Trade payables - purchaser's risk	328,506	-	-	328,506
Borrowings and financing	3,100	2,728	30,420	36,248
Debentures	416,075	2,797,731	4,763,167	7,976,973
Payables - acquisitions	131,252	98,452	126,430	356,134
	1,371,314	2,898,911	4,920,017	9,190,242

The balances of the table above reflect the balances of principal repayable plus interest and inflation adjustment up to the last installment and thus do not reflect the balances stated and the related noted to the interim financial information for the period ended March 31, 2019.

4.2. Capital management

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

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

As at March 31, 2019, the Company had an adequate capital structure to facilitate its growth strategy, either organically or through acquisitions. The investment decisions take into consideration the expected return potential.

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

The financial leverage ratios are as follows:

	Consolidated	
	03/31/2019	12/31/2018
Borrowings and financing, debentures and payables for acquisitions	(8,193,732)	(8,401,393)
Cash and cash equivalents and securities – current and noncurrent	2,023,522	2,595,570
Net cash	(6,170,210)	(5,805,823)
Equity	16,044,773	16,006,830
Financial leverage ratio	38.46%	36.31%

4.3. Sensitivity analysis

The table below shows the sensitivity analysis for financial instruments, describing the risks that may result in material losses for the Company, according to a Management assessment, using a most probable scenario for a twelve-month period and the following projected rates: CDI: 6.34% and IPCA: 4.58% per year. Additionally, two other scenarios are provided showing a 25% and 50% stress of the risk variable considered, respectively.

	Consolidated				
	Baseline exposure 03/31/2019	Risk	Probable scenario	Possible scenario -25%	Remote scenario -50%
Short-term investments and securities	2,023,522	CDI increase	128,291	160,364	192,437
CDI-indexed debentures and payables	(7,576,761)	CDI decrease	(480,367)	(600,458)	(720,550)
IPCA-indexed debentures and payables	(259,896)	IPCA decrease	(11,903)	(14,879)	(17,855)
	(5,813,135)		(363,979)	(454,973)	(545,968)

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

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

5. FINANCIAL INSTRUMENTS BY CATEGORY

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

		Consolidated
	03/31/2019	12/31/2018
Assets - amortized cost		
Cash and cash equivalents	1,484,331	1,485,611
Trade receivables	3,022,291	1,940,313
Other receivables	246,225	903,345
	4,752,847	4,329,269
Assets - fair value through profit or loss		
Securities	539,191	1,109,959
	539,191	1,109,959
Liabilities - amortized cost		
Borrowings and financing	34,086	55,116
Debentures	7,501,386	7,628,506
Purchasers' trade payables	328,506	391,974
Trade and other payables, less legal obligations	899,943	899,860
	8,763,921	8,975,456

The Company's financial assets and liabilities as at March 31, 2019 are recognized in balance sheet accounts and at amounts consistent with those prevailing in the market.

6. CREDIT QUALITY OF FINANCIAL ASSETS

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

		Consolidated
	03/31/2019	12/31/2018
Trade receivables (note 9)		
Group 1 - higher education	4,227,951	3,739,177
Group 2 - K-12 education	650,912	558,522
	4,878,863	4,297,699

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

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

	Consolidated	
Cash and cash equivalents (note 7)	03/31/2019	12/31/2018
AAA	1,161,993	1,138,346
AA	7,971	18,645
A+	281,772	293,148
AA-	13	13
Not applicable	32,582	35,459
	1,484,331	1,485,611
Securities (note 8)		
AAA	60,632	66,980
AA	11,329	14,248
A+	456,945	969,974
Not applicable	10,285	58,757
	539,191	1,109,959

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

7. CASH AND CASH EQUIVALENTS

	Parent		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Cash				
Checking account	92	90	6,537	3,076
	92	90	6,537	3,076
Short-term investments				
			-	-
Fixed-income fund	-	-	40,031	33,442
Repurchase agreements	-	-	139,365	137,732
National Treasury Notes (NTNO) (i)	11,043	9,967	149,464	155,773
Bank certificates of deposit (CDBs)	-	-	1,148,934	1,155,588
	11,043	9,967	1,477,794	1,482,535
	11,135	10,057	1,484,331	1,485,611

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

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

The Company has highly liquid short-term investments, with insignificant risk of changes in value, a significant portion of which is made in exclusive funds. The average gross yield of short-term investments is 99.85% of CDI (interbank deposits rate) as at March 31, 2019 (99.89% of CDI as at December 31, 2018).

8. SECURITIES

		Consolidated
	03/31/2019	12/31/2018
National Treasury Bills (LTN)	122,866	547,202
Financial Bills (LF)	71,450	81,091
Financial Treasury Bills (LFT)	344,875	481,666
	539,191	1,109,959
Current	527,752	1,098,185
Noncurrent	11,439	11,774
	539,191	1,109,959

The average gross yield of securities is 99.85% of CDI as at March 31, 2019 (99.89% of CDI as at December 31, 2018).

9. TRADE RECEIVABLES

a) Breakdown

		Consolidated
	03/31/2019	12/31/2018
Higher education (i)	4,227,951	3,739,177
K-12 education (ii)	650,912	558,522
	4,878,863	4,297,699
Allowance for doubtful debts		
Higher education	(1,550,300)	(1,371,947)
K-12 education	(100,507)	(94,081)
	(1,650,807)	(1,466,028)
Trade receivables, net	3,228,056	2,831,671
Adjustment to present value (iii)	(205,765)	(197,075)
	3,022,291	2,634,596
Current	2,306,023	1,940,313
Noncurrent (iv)	716,268	694,283
	3,022,291	2,634,596

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

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

(ii) Textbooks, support materials, sale of workbooks, franchises, and monthly tuitions.

(iii) The present value adjustment (PVA) is calculated on the revenue amounts recognized on a monthly basis and that mature in future periods, notably products used by the students benefiting from the PEP or PMT (Late Enrollment in Installments) products. The weighted average rate used to discount the amounts in the period 2.53%.

The reversal of the PVA recognized in the revenue month can be made in two ways: a) due to the natural evolution of the contracts in time, i.e., it is reversed on a monthly basis prorated to the month with positive impact on profit or loss; and b) when there is a student dropout, which, under the signed contract, allows us to charge in advance œ outstanding amount and in this case the PVA balance is fully reversed.

(iv) PEP and higher education tuition fee renegotiation receivables falling due after 365 days, net of present value adjustments.

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

b) Receivables aging list

	Consolidated	
	03/31/2019	12/31/2018
Current/PEP	3,999,876	3,257,762
Past due		
Up to 30 days	183,055	196,351
31 to 60 days	71,823	152,668
61 to 90 days	43,912	9,729
91 to 180 days	256,178	131,870
181 to 365 days	324,019	549,319
Total past due	878,987	1,039,937
Allowance for doubtful debts	(1,650,807)	(1,466,028)
Present value adjustment	(205,765)	(197,075)
	3,022,291	2,634,596

c) Allowance for doubtful debts and write-offs

Monthly tuitions

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

FIES

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

- For contracts with guarantor, the Company recognized an allowance of 4.5% of this type of billed revenue, taking into account that the Company assumes only 15% of the exposure to the FIES credit risk and an estimated of 30% of default.

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

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

PEP

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

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

Variations in allowance for doubtful debts

		Consolidated
	03/31/2019	12/31/2018
Opening balance	(1,466,028)	(994,730)
Addition arising from acquiree	(1,949)	(75,630)
Write-off against trade receivables	28,042	276,823
Recognition	(210,872)	(672,491)
Closing balance	(1,650,807)	(1,466,028)

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

10. INVENTORIES

		Consolidated
	03/31/2019	12/31/2018
Finished goods	362,636	382,633
Work in process	74,241	75,849
Raw materials	100,567	59,309
Imports in transit	2,069	-
Allowance for losses	(149,279)	(147,134)
	390,234	370,657

Variations in the allowance for inventory losses are as follows:

		Consolidated
	03/31/2019	12/31/2018
Opening balance	147,134	4,205
Addition arising from acquiree	-	143,945
Increase in the period	27,732	27,930
Reversal in the period	(23,442)	-
Inventory losses	(2,145)	(28,946)
Closing balance	149,279	147,134

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

11. RECOVERABLE TAXES

		Parent		Consolidated
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Income tax and social contribution (i)	3,949	3,913	245,077	211,990
PIS, COFINS and ISS (ii)	-	-	33,488	59,917
Social security tax (INSS)	-	-	29,641	28,955
Other recoverable taxes	-	-	32,392	20,136
	3,949	3,913	340,598	320,998
Current	3,949	3,913	334,169	315,169
Noncurrent	-	-	6,429	5,829
	3,949	3,913	340,598	320,998

(i) Refers to recoverable amounts of withholding income tax (IRRF) on short-term investments and invoices, income tax, social contribution, which can be offset against any federal tax managed by the Federal Revenue Service of Brazil.

(ii) Refers to PIS and COFINS credits claimed and retained on book sales and that can be offset against other federal taxes, as well as withholding taxes due to the issue of service invoices.

12. RECEIVABLES FROM SALE OF SUBSIDIARIES

		Consolidated
	03/31/2019	12/31/2018
UNIASSELVI	454,634	447,362
FAC	24,673	24,162
FAIR	13,800	13,511
NOVATEC	2,769	4,046
Colégio Anchieta	2,882	2,837
UNIRONDON	1,944	1,919
FAUSB	578	568
	501,280	494,405
Current	133,706	132,854
Noncurrent	367,574	361,551
	501,280	494,405

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

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

		03/31/2019	
	Installment due dates	Total	%
Total current assets	2019	133,706	26.9
	2020	122,441	24.4
	2021	123,000	24.5
	2022	121,367	24.1
	2023	766	0.2
Total noncurrent assets		367,574	73.1
Total		501,280	100.0

13. OTHER RECEIVABLES

	Consolidated	
	03/31/2019	12/31/2018
Prepaid expenses (i)	73,580	31,346
Receivables from acquirees (ii)	113,198	97,293
INSS on severance pay (iii)	30,859	30,859
Other (iv)	28,588	49,564
Total	246,225	209,062
Current	180,410	150,937
Noncurrent	65,815	58,125
	246,225	209,062

(i) Consisting mainly of: R$20,466 in property tax (IPTU) expenses, R$34,796 in marketing expenses, R$2,952 in software license costs and R$1,658 in textbooks and workbooks, and R$12,650 in other expenses prepaid by SOMOS.

(ii) Consisting mainly of subsidiary Anhanguera Educacional S.A., which recognizes a reimbursement asset arising on contractual rights to be reimbursed by the former owners of Academia Paulista Anchieta Ltda. (APA) in the adjusted amount R$41,425 relating to the balance of service tax (ISS) payable in installments under the Tax Relief Installment Program (PPI) of the City of São Paulo and R$10,998 relating to the tax collection lawsuit filed with the 2nd Public Finance Court, relating to an educational arrangement entered into in the 90s by APA and the City of São Bernardo do Campo, concerning a debt originating from the lack of approval of the City's accounts by the Court of Auditors. Subsidiary Unime LF has R$2,052 receivable from its former owners relating to the REFIS tax installment program. Subsidiary Somos has R$16,717 relating to contingencies with a probable likelihood of loss for which the sellers of the companies acquired by Somos are liable. Under the sale agreement entered into by the former shareholders of the acquired companies and Somos, in certain circumstances these shareholders guarantee the reimbursement of potential payments collected from Somos. In aggregate the other subsidiaries recognize R$58,722 in receivables arising mainly from taxes and burden of defeat fees paid guaranteed by the former owners.

(iii) Consisting mainly of recoverable social security contribution (INSS) originating from favorable court rulings against the levy of INSS on severance pay.

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

(iv) Consisting mainly of: R$2,477 in the remaining balance receivable from the sale of property located in São Paulo, R$2,971 relating to the sale of a property located in Santo André, R$8,394 in amounts receivable relating to the sublease of a property located in São Paulo, which was classified as finance lease as required by IFRS 16.

14. INVESTMENTS

(a) Breakdown of investments in direct subsidiaries

	Parent	
	03/31/2019	12/31/2018
Editora e Distribuidora Educacional S.A. ("EDE")	5,987,526	5,948,898
Anhanguera Educacional Participações S.A. ("AESAPAR")	3,128,873	3,109,748
SB Sistemas	84	(16)
Subtotal	9,116,483	9,058,630
Goodwill, including allocated Anhanguera goodwill	7,462,799	7,480,775
Total	16,579,282	16,539,405

(b) Information on the direct subsidiaries

	March 31, 2019					
	Equity interest	Number of shares	Total assets	Total liabilities	Equity	Profit for the period
EDE	100%	2,789,437,961	7,370,876	1,383,350	5,987,526	130,000
AESAPAR	74.46%	2,497,592,975	6,835,879	2,633,793	4,202,086	136,854
SB SISTEMAS	100%	102,000	144	60	84	(1)
		5,287,132,936	14,206,899	4,017,203	10,189,696	266,853

	December 31, 2018					
	Equity interest	Number of shares	Total assets	Total liabilities	Equity	Profit for the period
EDE	100%	2,789,437,961	6,779,613	830,715	5,948,898	834,171
AESAPAR	74.46%	2,497,592,975	5,303,694	1,127,258	4,176,436	700,166
SB SISTEMAS	100%	2,000	71	87	(16)	(18)
		5,287,032,936	12,083,378	1,958,060	10,125,318	1,534,319

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

(c) Variations in investment in direct subsidiaries:

					Parent
Investment	EDE	AESAPAR	SB Sistemas	Goodwill	Total
Balance as at 12/31/2018	5,948,898	3,109,748	(16)	7,480,775	16,539,405
Variations					
Amortization of allocated goodwill	-	-	-		-
Share of profit (loss) of investees	130,000	101,902	(1)	(17,976)	213,925
Capital increase	-	-	100	-	100
Adoption of IFRS 16	(97,228)	(82,996)	-	-	(180,224)
RSU impacts	5,856	220	-	-	6,076
Balance as at 03/31/2019	5,987,526	3,128,874	83	7,462,799	16,579,282

(d) Information on the indirect subsidiaries

						March 31, 2019
	Equity interest	Number of shares	Total assets	Total liabilities	Equity	Profit for the period
Direct subsidiaries - EDE						
Centro de Ensino Atenas Maranhense	99.99%	101,899,364	290,803	58,916	231,887	8,282
Faculdade Integradas de Sorriso (i)	99.99%	-	-	-	-	43
União de Faculdades do Amapá (i)	99.99%	-	-	-	-	294
Centro de Ensino Superior de Marabá Ltda. (ii)	99.99%	9,829,511	35,521	32,084	3,437	634
Centro de Ensino Superior de Parauapebas Ltda. (ii)	99.99%	4,675,159	8,393	5,099	3,294	923
Centro de Ensino Superior de Paragominas Ltda. (ii)	99.99%	974,207	5,643	3,832	1,811	549
Orme Serviços Educacionais	99.99%	169,755,196	125,888	59,745	66,143	(7,202)
Pax Editora e Distribuidora	99.99%	17,956,763	21,524	1,094	20,430	(952)
Projecta Educacional	99.99%	10,234,275	5,440	309	5,131	34
Anhanguera Educacional Participações S.A	25.54%	2,497,592,975	6,835,879	2,633,793	4,202,086	136,854
Pitágoras Sistema de Ensino Sociedade	99.99%	384,011,229	1,076,574	381,538	695,036	66,372
União de Ensino Unopar	99.99%	100,150,210	226,368	109,384	116,984	15,501
Unic Educacional	99.99%	203,030,858	531,983	91,135	440,848	31,905
Iuni Educacional - Unime Salvador	99.99%	15,916,973	127,605	76,581	51,024	(1,041)
União Metropolitana para o Desenvolvimento da Educação e Cultura	99.99%	-	-	-	-	196
Saber Serviços Educacionais S.A.	99.99%	513,480,389	10,596,927	10,225,922	371,005	(40,959)
Direct subsidiaries - SABER						
Nucleo Brasileiro De Estudos Avançados Ltda	100.00%	10,000	603	1,693	(1,090)	(187)
Colegio Manaura Latu Sensu Ltda,	100.00%	3,261,353	102,212	242,522	(140,310)	1,058
Sanches Serviços De Educação Ltda	100.00%	480,000	417	633	(216)	(132)
Centro De Educação Do Norte Do Brasil	100.00%	100,001	8,448	15,618	(7,170)	(95)
Centro Educacional Leonardo Da Vinci S/S Ltda	100.00%	2,839,000	225,966	285,866	(59,900)	535
Da Vinci Servicos Educacionais Ltda	100.00%	1,870,000	5,260	18,429	(13,169)	710
Somos Educação S.A. (i)	73.35%	862,887,241	4,076,856	3,660,987	415,869	45,541
AESAPAR indirect subsidiaries:						
Anhanguera Educacional Ltda.	100.00%	49,163,929	161,376	2,866	158,510	9,387
Clínica Médica Anhanguera Ltda.	100.00%	100,000	472	9	463	(6)
Anhanguera Educacional Fundo de Investimento em Direitos Creditórios	100.00%	3,596,891	21,688	71	21,617	1,989
Instituto Excelência Ltda.	100.00%	17,935,579	3,779	213	3,566	(2)
Edufor serviços educacionais Ltda. – ME	100.00%	1,759,300	2,717	3,124	(407)	(437)
Sociedade Piauiense de ensino superior Ltda.	100.00%	14,971,750	39,851	42,681	(2,830)	6,101
Fateci Cursos Técnicos S/S	100.00%	4,427,000	3,986	2,148	1,838	1,366
Clauder Ciarlini Filho S/S.	100.00%	2,777,000	14,737	27,437	(12,700)	7,387
Sociedade Educacional da Paraíba Ltda.	100.00%	22,376,000	11,628	4,369	7,259	(370)
Bacabal Mearim Sistemas de Ensino Ltda.	100.00%	1,420,000	24,969	20,596	4,373	7,164

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

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

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

15. PROPERTY, PLANT AND EQUIPMENT

Consolidated

	IT equipment	Furniture, equipment and fixtures	Library	Buildings and improvements	PP&E in progress	Land	Right of use	Total
Balance as at December 31, 2018	129,214	439,935	144,050	1,566,915	97,834	107,695	-	2,485,643
IFRS 16 opening balance	-	-	-	-	-	-	2,906,588	2,906,588
Balance as at January 1, 2019	129,214	439,935	144,050	1,566,915	97,834	107,695	2,906,588	5,392,231
Additions	11,560	28,131	5,750	1,873	35,985	-	114,564	197,863
Addition due to business combination	286	2,447	591	154	-	-	-	3,478
Write-offs	(354)	(1,074)	(4)	(4,686)	(1,189)	(509)	-	(7,816)
Depreciation	(12,739)	(15,166)	(6,651)	(21,861)	-	-	(75,154)	(131,571)
Transfers	-	-	-	18,486	(38,821)	-	20,335	-
Balance as at March 31, 2019	127,967	454,273	143,736	1,560,881	93,809	107,186	2,966,333	5,454,185
Average annual depreciation rate	30%	11%	10%	4%	-	-	8%	

16. INTANGIBLE ASSETS

Consolidated

	Software	Content production	Operation License	Goodwill and allocated intangible assets	Other intangible assets	Total
Balance as at December 31, 2018	556,241	184,182	11,969	19,032,397	126,321	19,911,110
Additions	42,250	18,304	2,265	62,417	-	125,236
Write-offs	(33)	(1)	-	-	(327)	(361)
Amortization	(32,921)	(26,935)	(1,310)	(63,489)	(6,705)	(131,360)
Balance as at March 31, 2019	565,537	175,550	12,924	19,031,325	119,289	19,904,625
Average annual amortization rate	20%	38%	33%	7%	5%	-

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

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

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

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

	Consolidated	
	03/31/2019	12/31/2018
Goodwill (i)	14,604,273	14,557,921
Trademark (ii)	2,717,443	2,724,709
Operation license and center partner chain (iii)	684,295	667,966
Customer portfolio (iv)	1,025,314	1,081,786
Non-compete agreement (iv)	-	15
	19,031,325	19,032,397

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

(ii) Intangible asset with useful life estimated between 19 and 30 years.

(iii) Refers to the licenses to offer in-class and distance learning education and the partner chain of distance learning centers. Does not have a finite useful life and is subject to annual impairment tests.

(iv) Intangible asset with useful life estimated between 3 and at 14 years.

17. BORROWINGS, FINANCING AND DEBENTURES

(a) Breakdown of debentures, borrowings and financing

				Consolidated	
	Interest	Issuance	Maturity	03/31/2019	12/31/2018
2nd issue, 3rd series EDE debentures (ii)	CDI + 1.70% p.a.	02/26/2015	12/10/2019	43,520	42,687
1st issue, 1st series SABER debentures (iii)	CDI + 0.75% p.a.	08/15/2018	08/15/2021	1,134,401	1,154,212
1st issue, 2nd series SABER debentures (iii)	CDI + 1.00% p.a.	08/15/2018	08/15/2023	4,281,743	4,359,991
1st issue, 3rd series SABER debentures (iii)	IPCA + 6.7234% p.a.	08/15/2018	08/15/2025	108,170	108,641
2nd issue, 1st and 2nd series SABER SOMOS debentures (iv)	CDI + 0.90% p.a. and CDI + 1.70% p.a.	08/15/2018	08/15/2020 and 09/15/2022	802,960	817,335
3rd issue SABER SOMOS debentures (iv)	CDI + 1.15% p.a.	03/15/2018	09/15/2021	799,430	813,237
4th issue, single series SABER SCIPIONE debentures (iv)	CDI + 1.00% p.a.	10/25/2017	10/25/2020	110,318	108,300
1st issue SARAIVA SOMOS debentures (v)	CDI + 1.00% p.a.	08/27/2018	08/15/2021	220,844	224,103
Finance leases (iv)		11/01/2012	11/01/2017	34,086	55,116
Total				7,535,472	7,683,622
Borrowings and financing				2,915	4,671
Debentures				391,269	522,846
Current liabilities				394,184	527,517
Borrowings and financing				31,171	50,445
Debentures				7,110,117	7,105,660
Noncurrent liabilities				7,141,288	7,156,105
				7,535,472	7,683,622

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

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

							Consolidated
Company	Issue	Series	Number	Par value	Issue amount	Principal repayment	Interest payment
EDE	2nd	3rd	8,500	10	85,000	Semiannual (Jun & Dec)	Semiannual (Jun & Dec))
SABER	1st	1st	112,966	10	1,129,660	Annual	Semiannual (Feb & Aug)
SABER	1st	2nd	426,434	10	4,264,340	Annual	Semiannual (Feb & Aug)
SABER	1st	3rd	10,600	10	106,000	Annual	Semiannual (Feb & Aug)
SABERSOMOS	2nd	1st	600,000	1	600,000	Annual	Semiannual (Feb & Aug)
SABERSOMOS	2nd	2nd	200,000	1	200,000	Annual	Semiannual (Feb & Aug)
SABERSOMOS	3rd	Single	800,000	1	800,000	On maturity	Semiannual (Mar e Set)
SABERSCIPIONE	4th	Single	100,000	1	100,000	On maturity	On maturity
SARAIVASOMOS	1st	Single	2,200	100	220,000	On maturity	Semiannual (Feb & Aug)

(b) Variations in debentures, borrowings and financing

		Consolidated
	03/31/2019	12/31/2018
Opening balance	7,683,622	303,881
Addition due to business combination	-	2,150,639
Increase – principal	-	5,294,921
Increase – issue costs	-	(35,596)
Reversal of IFRS adoption balance	(20,335)	-
Accrued interest	136,633	214,706
Cost allocation	2,737	3,984
Interest payment	(265,641)	(24,923)
Principal repayment	(1,544)	(223,990)
Closing balance	7,535,472	7,683,622

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

The 1st issue financial ratios, which are calculated semiannually, are as follows:

(i) Net debt-to-adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). This ratio cannot exceed 3.5.

(ii) Adjusted EBITDA-to-finance income (cost). This ratio cannot be lower than 1.2.

The 2nd issue financial ratio, which is calculated annually, is as follows:

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

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

The debentures issued by subsidiary SABER also include covenants that require the compliance with financial ratios calculated on a quarterly basis over the issue period, based on the consolidated interim financial information of the Company as issue guarantor. The calculation period comprises the twelve months immediately prior to the end of each quarter, when the net debt-to-adjusted EBITDA ratio is calculated. This cannot exceed 3.

As at March 31, 2019, all issues were compliant with the corresponding financial ratios.

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

		Consolidated	
		03/31/2019	
	Installment due dates	Total	%
	2019	394,184	5.2
Total noncurrent liabilities		394,184	5.2
Total			
	2020	375,904	5.0
	2021	2,257,591	30.0
	2022	2,239,735	29.7
	2023	2,143,443	28.4
	2024 onwards	124,615	1.7
		7,141,288	94.8
		7,535,472	100.0

18. TRADE PAYABLES - PURCHASER'S RISK

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

As at March 31, 2019, the balance of trade payables - purchaser's risk was R$328,506 (R$391,974 as at December 31, 2018), the weighted average discount rate of the assignment transactions conducted by our suppliers with financial institutions was 0.92% per month (the weighted average discount rate as at December 31, 2018 was 0.68% per month), and the maximum payment deadline was 360 days. The balance is initially know net of adjustments to present value, which are subsequently recognized as finance costs.

19. LEASES PAYABLE

	03/31/2019
Opening balance	-
IFRS 16 opening balance	3,190,256
Additions	132,122
Accrued interest	-
Present value adjustment	75,824
Principal repayment	(126,914)
Closing balance	3,271,288

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

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

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

Fixed and variable rentals and rentals related to short-term and low-value contracts for the period ended March 31, 2019 were as follows:

	Consolidated
	03/31/2019
Fixed payments	126,914
Variable payments	2,823
Payments related to short-term and low-value contracts	5,115
Total Paid	134,852

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

20. PAYROLL AND RELATED TAXES

	Parent		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Payroll payable	-	-	112,769	94,686
INSS payable	-	-	46,924	61,819
Severance pay fund (FGTS) payable	-	-	10,508	18,363
Withholding income tax (IRRF) payable	-	-	36,145	39,215
Accrued vacation pay and 13^{th} salary	-	-	134,410	109,254
Payroll taxes on accruals	-	-	25,546	17,991
Accrued profit sharing	-	2,970	76,296	141,193
Other	-	-	26,150	25,730
	-	2,970	468,748	508,251

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

21. PAYABLES - ACQUISITIONS

	Consolidated	
	03/31/2019	12/31/2018
Colégio Leonardo da Vinci	76,435	75,295
Colégio Lato Sensu	67,713	66,096
Metropolitana	38,238	-
Imóvel Betim	21,012	48,977
Uniabc	28,927	28,657
Colégio SANTI	18,823	18,539
ICF	13,780	13,482
Grupo Visão	10,939	10,942
Livraria Livro Fácil	10,201	10,594
Fateci	8,369	8,249
IECAC (Sigma Águas Claras)	7,897	13,406
Febac	7,220	7,082
Iesville Educar / Intesc	5,478	5,397
Other	14,722	19,081
Total	329,754	325,797
Current	121,530	132,440
Noncurrent	208,224	193,357
	329,754	325,797

Variations in payables for acquisitions

	Consolidated	
	03/31/2019	12/31/2018
Opening balance	325,797	122,786
Addition due to business combination	-	69,999
Addition	60,294	4,911,900
Interest adjustment	5,815	10,778
Write-offs/nettings	-	(8,485)
Present value adjustment	(3,244)	(8,949)
Repayments	(58,908)	(4,772,232)
Closing balance	329,754	325,797

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

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

Due dates of payables for acquisitions

		03/31/2019	
	Installment due dates	Total	%
Total current liabilities	2019	121,530	36.9
		121,530	36.9
	2020	45,997	14.0
	2021	45,162	13.7
	2022	51,108	15.5
	2023	54,323	16.5
	2024 onwards	11,634	3.5
Total noncurrent liabilities		208,224	63.1
Total		329,754	100.0

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

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

22.1.Proceedings with a probable likelihood of loss

	Parent		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Labor proceedings (22.1(i))	2,904	5,941	149,808	151,452
Tax proceedings (22.1(ii))	42,375	50,842	154,559	172,291
Civil proceedings (22.1(iii))	1,731	7,206	96,713	99,190
Total materialized contingencies	47,010	63,989	401,080	422,933

(i) Labor proceedings

As at March 31, 2019, the most significant labor lawsuits to which the Company was a party, part of which are the responsibility of former sponsors/owners of the acquired entities, are as follows:

(a) Four labor lawsuits claiming the recognition of an employment relationship of a preparatory course teacher and the payment of all related benefits (vacation pay + 1/3 bonus, 13th salary, FGTS), overtime, undue decrease of class hourly fee, nightshift premium, severance pay, fine provided for by Articles 477 and 467 of the Brazilian Labor Code (CLT), pain and suffering due to violation of rights and image, payment for replay of recorded classes in online sales, fine for early termination, indirect termination of employment contract, registration in work papers, and lawyers' fees, totaling R$11,617;

(b) Class action filed by the ABC labor union, filed in 2011, consisting of several claims relating to the compliance with the teachers collective labor agreement, such as: weekly paid rest difference on nightshift premium, five-year salary rises, hourly fee, and distance learning classes (EAD), teacher salary makeup (five-year salary rise, hourly fee, nightshift premium), entry-level teacher salary gap, meal ticket, fine for noncompliance with regulatory clause on entry-level teacher salary gap, and lawyers' fees, totaling R$8,517;

(c) The main lawsuit is a class action filed by the ABC labor union, in 2011, for which the former sponsor is liable, claiming the payment of a fine for noncompliance of a regulatory clause of the teachers' collective labor agreement that addresses salary increases and the payment of vacation pay plus a 1/3 bonus on the July 2011 vacations, in addition to the claim of lawyers' fees, the provision amounts to R$1,540. The Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome; and

(d) The Company is also a party to 2,068 labor lawsuits, with individual amounts lower than the claims described above that on average amount to R$61. These lawsuits cover claims similar to those mentioned above and/or claim the payment of employee benefits in general.

(ii) Tax lawsuits

As at March 31, 2019, the most significant tax lawsuits to which the Company was a party, part of which are the responsibility of former sponsors/owners of the acquired entities, are as follows:

(a) Tax collection lawsuits filed by the City of São Paulo charging 2007-2011 Service Tax (ISSQN), with the most financial exposure for the former sponsors of Academia Paulista Anchieta, a company acquired by Anhanguera in September 2011, amounting to R$102,510. The Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome;

(b) Tax collection lawsuit collecting contributions to the severance pay fund (FGTS) for 2001-2003, based on the alleged violation of tax installment agreement No. 2004005284, amounting to R$1,488. The Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome; and

(c) The Company is also a party to 23 tax lawsuits, with individual amounts lower than the claims described above that on average amount to R$2,198. The claims involve different types of tax credits.

(iii) Civil proceedings

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

As at March 31, 2019, the most significant civil lawsuits to which the Company was a party, part of which are the responsibility of former sponsors/owners of the acquired entities, are as follows:

(a) The main lawsuit is a Collection Action, amounting to R$9,427, for which the former sponsors of Academia Paulista Anchieta are fully liable, where the claimant alleges damages resulting from irregular construction works and the fact that the property was returned without usage conditions. The Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome;

(b) Refers to an action seeking specific performance coupled with a compensation claim, where the claimant, former partner of Anhanguera, alleges that the company is not fully complying with the business partnership agreement entered into by the parties, the purpose of which is the satellite broadcast of preparatory courses for civil servant tests. Request the court to declare that AESA has not complied with the contractual obligations, including the encryption of the satellite signal amounting to R$8,206;

(c) Collection Action, amounting to R$6,831, for which the former sponsor is liable, claiming the payment of an additional amount for the subsidiary acquired by our subsidiary IUNI before its acquisition by the Company. The Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome; and

(d) The Company is also a party to 6,188 civil lawsuits, with individual amounts lower than the claims described above that on average amount to R$10. The claims involve mostly consumer complaints.

The table below shows the variations in contingencies in the period ended March 31, 2019.

				Parent
	Tax	Civil	Labor	Total
Balance as at 12/31/2018	50,842	7,206	5,941	63,989
Reversals (i)	(8,467)	(5,475)	(3,011)	(16,953)
Total impact on profit or loss	(8,467)	(5,475)	(3,011)	(16,953)
Former sponsor lawsuits	-	-	(26)	(26)
Total payments	-	-	(26)	(26)
Balance as at 03/31/2019	42,375	1,731	2,904	47,010

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

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

	Tax	Civil	Labor	Consolidated Total
Balance as at 12/31/2018	172,291	99,190	151,452	422,933
Additions (i)	37	22,182	15,574	37,793
Reversals (ii)	(17,884)	(8,192)	(8,684)	(34,760)
Total impact on profit or loss	(17,847)	13,990	6,890	3,033
Former sponsor lawsuits	(4)	279	1,140	1,415
Payments	(50)	(26,194)	(12,383)	(38,627)
Total payments	(54)	(25,915)	(11,243)	(37,212)
Balance from acquirees	169	9,448	2,709	12,326
Balance as at 03/31/2019	154,559	96,713	149,808	401,080

(i) The main additions are listed below:

(a) Civil – Addition of 4,113 sundry civil lawsuits totaling R$22,182, with immaterial individual amounts. The most significant amount added was approximately R$530; and

(b) Labor - Addition of 358 sundry labor lawsuits totaling R$15,574, with immaterial individual amounts. The most significant amount added was approximately R$650;

(ii) The reversals made in the first quarter of 2019 refer to changes that had an impact on the Company's profit for the quarter, the main ones being:

(a) Tax: the main reversals were: in subsidiary Anhanguera Educacional Ltda., R$1,198 was reversed due to the partially favorable outcome in the lawsuit collecting ISSQN; subsidiary Anhanguera Educacional Ltda. in São Paulo reversed R$1,213 and there were other sundry reversals by the Company totaling R$16,686;

(b) Civil: the main reversals were: in subsidiary Anhanguera Educacional in São Gonçalo, RJ, R$220 was reversed due to the partially favorable outcome in the lawsuit challenging the undue collection of administrative service fees; Anhanguera Educacional in São Gonçalo, RJ also reversed R$114 and there were other sundry reversals by the Company totaling R$7,858;

(c) Labor: the main reversals were: in subsidiary Anhanguera Educacional in São Bernardo do Campo, SP, R$839 was reversed due to the favorable outcome in a labor lawsuit claiming the payment of a general salary gap; subsidiary Anhanguera Educacional in Belo Horizonte, MG reversed R$521 and there were other sundry reversals by the Company totaling R$7,324.

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

22.2.Proceedings with a possible likelihood of loss

				Consolidated
	03/31/2019	12/31/2018	Number at 12/31/2018	Number at 12/31/2017
Tax (i)	601,620	487,346	209	188
Civil (ii)	227,655	384,549	15,747	15,504
Labor (iii)	87,272	93,743	1,016	1,169
Total	916,547	965,638	16,972	12,764

As at March 31, 2019, the Company and its parent companies were parties to 16,972 court/administrative proceedings classified by management with a possible likelihood of loss based on the opinion of its legal counsel, the main ones being:

(i) Tax:

(a) Tax assessment notice issued by the Federal Revenue Service of Brazil against the Company after a tax audit for the nonpayment of taxes on the stock options granted by the Company in January 2014-October 2017, amounting to R$131,311.

(b) Tax lawsuits filed by the Federal Government claiming the payment of a tax debt consisting of unpaid social security contributions registered as enforceable debt during the period when subsidiary IUNI was owned by its former sponsor and was entitled to tax immunity as a nonprofit philanthropic entity. The tax lawsuits covering this issue total R$160,085. In the event of an unfavorable outcome, the former sponsor is partially liable for this contingency, up to approximately R$70,000. Any sentence exceeding this amount will be paid by the Company.

(c) Tax assessment notice issued by the Federal Revenue Service of Brazil against subsidiary Editora e Distribuidora Educacional (EDE) to collect social security contributions on the amount paid by the Company to eligible employees in calendar years 2013-2016. The assessed principal and charges (fine and arrears interest) total R$64,106. The Company is liable for this tax assessment.

(ii) Civil:

(a) Class action amounting to R$12,000, filed by the Paraná State Prosecutor to repeal Municipal Laws 2463/201.003 and 2553/2005 of Arapongas, State of Paraná, that ceded the use of a plot of land and a building for UNOPAR to operate (Bandeirantes Campus) without a bidding process. The former sponsor of UNOPAR is liable for any losses and the Company is contractually entitled to compensation in the event of an unfavorable outcome.

(b) Action amounting to R$7,964, to nullify a Contractual Amendment coupled with the collection of transfer differences and compensation for damages (property damages and loss of profits), filed by a Partner Center against UNOPAR due to alleged errors in inaccuracies in the transferred payments, and pressure to reduce the transfer percentage from 4% to 2%, for which Kroton is liable.

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

(iii) Labor:

(a) Tax lawsuit claiming the recognition of the employment relationship of a preparatory course teacher and the payment of all related benefits (vacation pay + 1/3 bonus, 13th salary, FGTS), overtime, nightshift premium, severance pay, registration in work papers, and lawyers' fees. The Company is liable for this lawsuit, which totals R$7,000;

(b) Tax lawsuit claiming the payment of overtime, nightshift premium, premium for holding two positions, compensation for pain and suffering, scholarships, and lawyers' fees. The Company is fully liable for this lawsuit, which totals R$2,000;

(c) There are other 1,014 sundry labor lawsuits, which on average amount to R$77.

22.3. Escrow deposits

Breakdown of escrow deposits

		Consolidated
	03/31/2019	12/31/2018
Tax	12,164	8,838
Civil	17,558	12,063
Labor	81,451	81,755
Total	111,173	102,656

23. PROVISION FOR LIABILITIES ASSUMED IN BUSINESS COMBINATIONS

As required by CPC 15 *Business Combinations*, the Company, based on the reports of its legal counsel and financial advisors, recognized in liabilities a provision amounting to R$3,207,724 relating to potential noncompliance of past practices used by entities acquired by the Company with labor, civil, and tax laws and regulations during the period they were owned by the acquirees' sellers.

The Company has contractual guarantees provided by the acquirees' sellers is case it incurs any contingency that can be attributed to such sellers. Especially as regards the acquisition of Somos, there is an escrow account amounting to R$455,644, held as guarantee for contingencies for which the sellers of Somos are objectively liable.

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

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

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

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

				Consolidated
	Tax	Civil	Labor	Total
CELV / DA VINCI	139,437	1,889	111,543	252,869
FATECI / CLAUDER	20,680	17,687	1,702	40,069
ICF	19,874	14,429	12,450	46,753
FEBAC	18,594	7,297	5,805	31,696
SOMOS	1,741,687	158,282	700,661	2,600,629
LATO SENSU	-	227,394	13,614	241,008
SEPA	-	24	-	24
Balance as at 12/31/2018	1,940,272	427,002	845,775	3,213,048
Metropolitana addition	16,880	-	-	16,880
Reversals	(12,744)	(12,996)	(6,799)	(32,539)
Balance as at 03/31/2019	1,944,408	414,006	838,976	3,197,389

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

(a) Tax - tax assessment notice issued by the City of Vitória do to the nonpayment of ISSQN amounting to R$33,611. The former sponsor is liable for this proceeding and the Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome.

(b) Tax - tax assessment notice collecting IRPJ and CSLL, plus aggravated fine of 150% due to the disallowance of amortized goodwill and nondeductible expenses, plus one-off fine (for the alleged underpayment of estimated taxes), for calendar years 2011-2014. The tax assessment notice, amounting to R$381,544, was issued against Somos Sistemas de Ensino S.A., and includes as jointly and severally liable the companies Somos Educação S.A. and Ativic S.A. (linked to the Abril Group), pursuant to Article 124, I, of the National Tax Code. The Company is liable for this proceeding;

(c) Tax - tax assessment notice collecting alleged corporate income tax debts and related increase in other amounts (taxes and revenue, social contribution, and one-off fine) for the years 2000, 2001 and 2002.This tax assessment notice referred to seven infractions and currently only the issue involving goodwill, amounting to R$82,316, is still pending. The Company is liable for this proceeding;

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

(d) Tax - tax assessment notice issued by the Federal Service for the nonpayment of corporate income tax (IRPJ) and social contribution on net income (CSLL), as well as the imposition of aggravated automatic fine of 150% and one-off fine on monthly estimated IRPJ/CSLL, regarding calendar years 2013-2015. The tax assessment notice was issued against Central de Produções GWUP S.A. and its subsidiary Somos, as jointly and severally liable. The IRPJ and CSLL are being collected due to the disallowance of finance costs, considered nondeductible by the tax auditors, and the disallowance of goodwill. As a result of the adjustments made by the tax auditors, the tax authority also imposed an one-off fine for the alleged nonpayment of monthly estimated IRPJ and CSLL, amounting to R$114,662. The former sponsor is liable for this proceeding and the Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome.

(e) Tax – Based on the history and risk analyses of tax assessments issued due to the utilization of goodwill arising on acquisitions made SOMOS and the corresponding recognition of tax claim by the tax authority, we took into consideration a potential obligation resulting from past events of R$747,838 and other tax procedures that might be challenged that total R$152,876.

(f) Civil – lawsuit claiming compensation of R$8,806, filed by a third party against Editora Ática S.A. that alleges it was the exclusive distributor of Ática books in the states Espírito Santo and Bahia. The Company is liable for this proceeding in the event of an unfavorable outcome.

(g) Labor - Based on the history and analyses of risks resulting from the noncompliance of past labor practices with labor laws and regulations, the main potential provision for obligations resulting from past events concerns the payments made to service providers under Self-employed Worker Receipts (RPAs) and corporate invoices, amounting to R$207,508, and other sundry cases of noncompliance with labor laws and regulations totaling R$392,003.

(h) Civil - Based on the history and risk analyses, the Company recognized a potential obligation resulting from past events, contractual fines on the early contract terminations, particularly property lease contracts, which total R$41,702, other sundry cases of noncompliance with civil laws and regulations totaling R$102,008.

Guarantees of provision for civil, labor, and tax contingencies

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

	Consolidated			
	Tax	Civil	Labor	Total
Balance as at 12/31/2018	724,882	112,926	95,411	933,219
Addition	978	282	2,310	3,570
Addition due to business combination	16,880	-	-	16,880
Reversals	(10)	(3)	(1,169)	(1,182)
Balance as at 03/31/2019	742,730	113,205	96,552	952,487

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

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

24. CURRENT AND DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

a) Income tax and social contribution in profit or loss

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

	Parent		Consolidated	
	03/31/2019	03/31/2018	03/31/2019	03/31/2018
Profit before income tax and social contribution for the year	232,814	470,693	256,486	484,831
Combined income tax and social contribution rate - %	34%	34%	34%	34%
IRPJ and CSLL at statutory tax rates	(79,157)	(160,036)	(87,205)	(164,843)
Share of profit (loss) of investees	78,846	141,870	196	-
Tax incentive in subsidiaries subject to ProUni benefit	-	-	75,561	133,462
Add-backs (deductions), net (i)	5,730	22,881	7,673	21,826
Difference of tax rate relating to subsidiary's deemed income	-	-	-	106
Deferred IRPJ and CSLL not recognized on subsidiaries' loss for the year	-	-	(4,320)	(1,932)
Other changes in income tax and social contribution	8	7	1,758	1,965
Total IRPJ and CSLL	5,427	4,722	(6,337)	(9,416)
Current IRPJ and CSLL in profit or loss	(685)	(1,390)	(53,240)	(20,381)
Deferred IRPJ and CSLL in profit or loss	6,112	6,112	46,903	10,965
	5,427	24,447	(6,337)	(9,416)

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

b) Deferred income tax and social contribution

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

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

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

		Impact on profit or loss		Parent
	12/31/2018	IFRS 16 adjustments	Other	03/31/2019
In liabilities				
Goodwill on business combinations	(669,873)	6,112	-	(663,761)
Noncurrent liabilities	(669,873)	6,112	-	(663,761)

		Impact on profit or loss		Consolidated
	12/31/2018	IFRS 16 adjustments	Impact on profit or loss	03/31/2019
Income tax/social contribution:				
Tax loss carryforwards	363,380	-	5,026	368,406
Temporary differences in taxable income	-	-	-	-
Allowance for doubtful debts	398,296	-	15,729	414,025
Present value adjustment	69,232	-	4,229	73,461
Provision for contingencies	83,541	-	(6,427)	77,114
Depreciation and borrowing costs	(240)	-	(555)	(795)
Nondeductible provisions	69,199	-	(29,204)	39,995
Profit sharing	29,934	-	6,773	36,707
Amortization of intangible assets	-	-	-	-
Stock option plan	7,462	-	-	7,462
Leases	-	93,835	7,299	101,134
Capital gain	(69,693)	-	-	(69,693)
Goodwill on business combinations	(1,489,544)	-	45,028	(1,444,516)
Other adjustments	12,218	-	(3,008)	9,210
Noncurrent liabilities	(526,215)	93,835	44,890	(387,490)
Noncurrent assets	515,900			614,605
(-) Noncurrent liabilities	(1,042,115)			(1,002,095)
Total	(526,215)			(387,490)

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

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

Deferred income tax and social contribution per realization year

	Consolidated	
Realization year	Total	%
2019	330,040	33%
2020	164,059	16%
2021	203,490	20%
2022	169,290	17%
2023 onwards	141,780	14%
	678,619	67%
	1,008,659	100%

c) Tax incentives

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

The amount of the tax benefits under the ProUni determined for the period ended March 31, 2019, including PIS and COFINS, is R$116,896 (R$174,814 for the period ended March 31, 2018).

25. EQUITY

a) Capital

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

	03/31/2019	12/31/2018
Total ex-treasury shares	1,629,777,614	1,629,605,489
Total treasury shares	14,470,592	14,642,717
Total shares	1,644,248,206	1,644,248,206

Treasury shares

	Number of shares	
	03/31/2019	12/31/2018
Balance as at December 31, 2018	14,670,032	169,265
Buyback of treasury shares	-	17,212,500
Shares sold	(199,440)	(2,739,048)
Balance as at March 31, 2019	14,470,592	14,642,717

b) Capital reserve and granted stock options

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

The balance of all capital reserve accounts in the period ended March 31, 2019 is R$6,374,271 (R$6,379,742 as at December 31, 2018).

(i) Equity instruments arising on business combinations

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

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

c) Dividends

On May 15, 2019 the Board of Directors approved the payment of interim dividends for the first quarter of 2019 amounting to R$90,531.

26. STOCK OPTION PLAN

Restricted stock option plan

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

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

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

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

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

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

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

The table below shows the variations in the period ended March 31, 2019:

	Number of restricted shares					
PLANS	12/31/2018	Restricted shares granted (i)	Restricted shares settled	Restricted shares cancelled	03/31/2019	Average weighted price of restricted shares settled
2015 Plan - replaced	1,504,272	-	(203,315)	(24,580)	1,276,377	R$10.73
2018 Plan - new	7,340,286	-	-	-	7,340,286	-
TOTAL	8,844,558	-	(203,315)	(24,580)	8,616,663	

(i) No new stock options were granted in the period ended March 31, 2019. In the year ended December 31, 2018, 6,250,000 stock options were cancelled and replaced on the same date by granting 1,935,069 restricted stocks, as calculated in the exchange ratio.

The Company recognized the expenses incurred on the Restricted Stock Option Plan grants amounting to R$6,676 for the period ended March 31, 2019 (R$0 for the period ended March 31, 2018) as a contra entry to capital reserves in equity. The Company also recognized as personnel expenses charges amounting to R$2,524 for the period ended March 31, 2019 (R$0 for the period ended March 31, 2018) as a contra entry to the provisions for charges, in liabilities.

Stock option plans

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

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

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

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

Plan	Grant date	Strike price on grant	Vesting period	Active options granted
KROT_Plano2009	02/08/2010 to 0/01/2013	R$2.18 to R$5.78	5 allotments with 12-, 24-, 36-, 48- and 60-month vesting periods; or 4 allotments with 6-, 18,- 30- and 42-month vesting periods	2,314,666
AEDU_Plano2010	07/03/2014	R$6.06 to R$11.20	3 allotments with 36-, 48- and 60-month vesting periods	85,655
AEDU_Plano2013	06/18/2013 to 07/03/2014	R$9.94 to R$11.20	3 allotments with 36-, 48- and 60-month vesting periods	4,328,491
KROT_Plano2013	11/26/2013 to 06/02/2015	R$5.67 to R$13.01	4 allotments with 6-, 18- and 42-month vesting periods	7,050,000
KROT_Plano2015	10/05/2015 to 12/05/2017	R$8.42 to R$18.24	4 allotments with 6-, 18-, 30- and 42-month vesting periods	19,545,294
				33,324,106

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

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

PLANS	12/31/2018	Granted	Vested (i)	Cancelled/ forfeited (ii)	03/31/2019	Average strike price
KROT_Plano2009	2,314,666	-	-	-	2,314,666	2.91
AEDU_Plano2010	85,655	-	-	-	85,655	6.20
AEDU_Plano2013	4,375,567	-	(47,076)	-	4,328,491	9.73
KROT_Plano2013	7,050,000	-	-	-	7,050,000	7.17
KROT_Plano2015	19,545,294	-	-	-	19,545,294	9.00
TOTAL	33,371,182	-	(47,076)	-	33,324,106	

(i) In the period ended March 31, 2019, 47,076 stock options were exercised against the disposal of treasury shares (in the year ended December 31, 2018, 6,152,295 stock options were exercised, of which 3,721,758 via capital increase with the specific goal of delivering new shares to the beneficiaries, and 2,430,537 against the disposal of treasury shares).
(ii) In the year ended December 31, 2018, 8,630,875 stock options were cancelled and replaced on the same date by granting 1,935,069 restricted shares, as calculated in the exchange ratio.

Fair value calculation and expense in profit or loss

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

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

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

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

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

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

	Plans				
	Kroton			AEDU	
	2009 Plan	2013 Plan	2015 Plan	2010 Plan (i)	2013 Plan
Stock Price (at grant date)	R$2.31 to R$7.00	R$9.48 to R$15.84	R$8.81 to R$18.24	R$3.73	R$3.73
Risk-free rate	6.0% to 9.0%	7.0% to 12.6%	6.8% to 16.5%	12.6%	12.6%
Expected annual volatility	27.9% to 35.0%	24.7% to 37.3%	38.4% to 40.8%	31.1%	31.1%
Volatility calculation model	Standard deviation	Standard deviation or EWMA	EWMA or Garch	Standard deviation	Standard deviation
Expected dividends	0% to 3.4%	2.1% to 3.5%	3.5%	2.6%	2.6%
Plan duration in years	6 to 10	5 to 8	8	6	5
Stock option's fair value on grant date (R$/share)	R$0.75 to R$2.22	R$2.44 to R$5.64	R$3.27 to R$5.38	R$2.73	R$5.55

(i) Plan exercisable by 2020

In the period ended March 31, 2019, R$1,671 were recognized as stock option fair value expenses (R$8,551 recognized as at March 31, 2018).

27. RELATED PARTIES

The intragroup balances and transactions are as follows:

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

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

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

	Agreement end date	Monthly rental	Adjustment index
EDE	January 2032	1,274 (Dec 2018)	IPCA
EDE	January 2021	23 (Sep 2018)	IPCA

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

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

(iii) Subsidiary PITÁGORAS uses a property leased from Sistema Pitágoras de Ensino Sociedade Ltda. (company controlled by member of the Company's Board of Directors). The agreement is effective until August 2023 and has a fixed monthly amount of R$205 (Mar 2019). This amount is indexed to the IPCA.

(iv) An onerous donation agreement was entered into by Kroton Educacional S.A. with Fundação Pitágoras to ensure the Foundation meets its corporate and institution purposes. There was a disbursement of R$450 relating to this agreement in 2019.

a) Compensation of key management personnel

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

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

Compensation of key management personnel

	01/01 to 03/31/2019	01/01 to 03/31/2018
Payroll	3,064	3,170
Benefits	110	139
Charges	1,333	654
Variable compensation (i)	2,192	1,839
Stock option plan	4,831	3,163
	11,530	8,965

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

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

28. NET OPERATING REVENUE

		Consolidated
	03/31/2019	03/31/2018
In-class higher education		
Gross revenue	1,269,798	1,363,499
Deductions from gross revenue		
Taxes	(29,054)	(40,453)
ProUni	(189,683)	(185,066)
Discounts	(77,223)	(72,992)
Net revenue	973,838	1,064,988
EAD higher education		
Gross revenue	387,899	346,325
Deductions from gross revenue		
Taxes	(7,674)	(7,032)
ProUni	(63,425)	(58,579)
Discounts	(25,374)	(18,386)
Net revenue	291,426	262,328
Higher education net revenue	1,265,264	1,327,316
K-12 education		
Gross revenue	678,572	48,003
Deductions from gross revenue		
Taxes	(17,680)	(1,285)
Returns	(87,049)	(10,709)
Net revenue	573,843	36,009
Total		
Gross revenue	2,336,269	1,757,827
Deductions from gross revenue		
Taxes	(54,408)	(48,770)
ProUni	(253,108)	(243,645)
Discounts	(102,597)	(91,378)
Returns	(87,049)	(10,709)
Net revenue	1,839,107	1,363,325

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

29. COSTS AND EXPENSES BY NATURE

	Parent		Consolidated	
	03/31/2019	03/31/2018	03/31/2019	03/31/2018
Payroll and related taxes	1,706	57,784	(518,719)	(370,666)
Depreciation and amortization	(18,746)	(18,739)	(187,777)	(102,223)
Depreciation - IFRS 16	-	-	(75,154)	-
Rental and common area maintenance fees (i)	-	-	(16,436)	(101,012)
Allowance for doubtful debts	-	-	(210,872)	(160,831)
Utilities, cleaning, and security	(82)	(95)	(70,009)	(47,256)
Publicity and advertising	(4)	(178)	(147,341)	(98,898)
Outside services	-	-	(2,115)	(2,278)
Consulting and advisory	(357)	(83)	(43,578)	(33,884)
Cost of sales	(18)	-	(120,558)	(5,094)
Travel	-	-	(11,399)	(6,466)
Copyrights	-	-	(33,897)	(1,079)
Fees and contributions	(1)	(2)	(16,980)	(8,406)
Contingencies	16,953	12,168	29,506	22,203
Other income (expenses) - net	1,426	1	(20,726)	(21,818)
	877	50,856	(1,446,055)	(937,708)
Cost of sales and services	-	-	(682,239)	(490,551)
Selling expenses	-	-	(351,037)	(275,095)
General and administrative expenses	877	50,856	(415,241)	(171,332)
Other operating income (expenses), net	-	-	2,462	(730)
	877	50,856	(1,446,055)	(937,708)

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

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

30. FINANCE INCOME (COSTS)

	Parent		Consolidated	
	03/31/2019	03/31/2018	03/31/2019	03/31/2018
Finance Income				
Interest on monthly tuitions	-	-	66,203	41,408
Income from short-term investments and securities	142	2,939	30,911	23,416
Discounts obtained	-	-	451	41
Present value adjustment to subleases – IFRS 16	-	-	196	-
Interest receivable	-	-	6,200	-
Other	-	-	4,251	5,039
	142	2,939	108,212	69,904
Finance costs				
Interest and costs on debentures (i)	-	-	(136,633)	(3,645)
Adjustment to payables for acquisitions of subsidiaries	-	-	(5,815)	(1,667)
Banking and collection fees	(5)	(1)	(6,660)	(3,834)
Interest and fines on late payments	-	-	(2,783)	(338)
Interest and fines on late payment of taxes	-	-	(8,093)	(640)
Adjustment to contingencies	-	(326)	-	(1,205)
Interest on and present value adjustment to leases - IFRS 16	-	-	(75,824)	-
Other	(101)	(40)	(9,547)	639
	(106)	(367)	(245,355)	(10,690)
Finance income (costs)	36	2,572	(137,143)	59,214

(i) Increase relating to the debentures issued by subsidiary Saber, as disclosed in note 17.

31. SEGMENT REPORTING

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

Segment reporting – 2019 consolidated

	Period ended March 31, 2019				
	In-class higher education	EAD higher education	K-12 education	Unallocated portion	Total
Net revenue	973,839	291,426	573,842	-	1,839,107
Cost of sales and services	(296,948)	(27,583)	(357,708)	-	(682,239)
	676,891	263,843	216,134	-	1,156,868
Operating expenses:					
Selling expenses	(239,721)	(86,981)	(24,335)	-	(351,037)
General and administrative expenses	(175,806)	(47,169)	(106,486)	(85,780)	(415,241)
Other expenses, net	(765)	(63)	3,853	14	3,039
Operating profit (loss) and before finance income (costs)	260,599	129,630	89,166	(85,766)	393,629
Assets	15,907,711	5,122,089	13,068,836	(452,127)	33,646,508
Current and noncurrent liabilities	3,441,291	775,978	13,605,368	(220,902)	17,601,735

Segment reporting – 2018 consolidated

	Period ended March 31, 2018				
	In-class higher education	EAD higher education	K-12 education	Unallocated portion	Total
Net revenue	1,064,987	262,329	36,009	-	1,363,325
Cost of sales and services	(436,188)	(34,481)	(19,882)	-	(490,551)
	628,799	227,848	16,127	-	872,774
Operating expenses:					
Selling expenses	(195,504)	(75,842)	(3,749)	-	(275,095)
General and administrative expenses	(56,944)	(16,145)	(985)	(97,258)	(171,332)
Other expenses, net	-	-	-	(730)	(730)
Operating profit (loss) and before finance income (costs)	376,351	135,861	11,393	(97,988)	425,617
Assets	12,667,083	5,644,924	12,112,394	220,638	30,645,039
Current and noncurrent liabilities	1,595,673	492,422	12,157,415	392,699	14,638,209

32. Earnings per share

a) Basic

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

	03/31/2019	03/31/2018
Profit attributable to Company owners	250,149	475,415
Weighted average number of outstanding common shares (in thousands)	1,629,716	1,639,501
Basic earnings per common share	0.15	0.29

b) Diluted

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

	03/31/2019	03/31/2018
Profit attributable to Company owners	250,149	475,415
Weighted average number of outstanding common shares (in thousands)	1,629,716	1,639,501
Potential increase in common shares (in thousands)	24,823	19,314
Diluted earnings per common share	0.15	0.29

33. EVENTS AFTER THE REPORTING PERIOD

Public Tender Offer

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

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

Since the number of shares acquired by Saber in the tender offer exceeded the minimum amount necessary to cancel the publicly held company registration of Somos, which is 2/3 of the free float eligible for the tender offer, Somos will take the necessary actions to cancel such registration. Thus, with the consequent withdrawal of Somos from B3's *Novo Mercado* listing segment, the shareholders that have not sold their shares in the tender offer may sell them in B3's basic trading segment until the date of the actual cancellation of the registration, to be confirmed by a an official letter of the Brazilian Securities and Exchange Commission ("CVM"), pursuant to the applicable regulation, which is be the subject matter of a new disclosure to the market on the issue.

Appointment of member of the Board of Directors

On April 18, 2019, the appointment of Mr. Júlio Fernando Cabizuca to the Board of Directors of Somos was approved, pursuant to Article 15, Para 5, of the Company's bylaws, and Article 150 of the Brazilian Corporate Law. The appointment of the new director, therefore, has to be confirmed at the first General Shareholders' Meeting held after the Annual Shareholders' Meeting called for April 29, 2019. This appointment will fill the vacant seat left by the resignation of Mr. Wolfgang Stephan Schwerdtle.

Issue of debentures

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

Belo Horizonte, May 15, 2019, Kroton Educacional S.A. (B3: KROT3; OTCQX: KROTY), "Kroton" or "Company," announces today its results for the first quarter of 2019 (1Q19). The Company's financial information is presented on a consolidated basis and in Brazilian real, in accordance with Brazilian Corporate Law and Generally Accepted Accounting Principles in Brazil (BRGAAP), and already conforms to International Financial Reporting Standards (IFRS), except where stated otherwise.

MESSAGE FROM MANAGEMENT

The years 2017 and 2018 were of investment. In Postsecondary Education, new own units (greenfield projects) and new distance learning centers were launched. In Primary and Secondary Education, we carried out the relevant acquisition of Somos. Now, in 2019, despite the highly challenging year, we already are beginning to reap the fruits of these strategic decisions.

The guidance we are announcing today (corporate perspective) indicates that Kroton's Net Revenue should grow by over 21% this year, EBITDA should grow by 24% and Cash Generation after Capex should post even more robust increase, of 64%. And the cash generation outlook for the coming years is even more promising.

A massive effort was made to ensure these deliveries. In Primary and Secondary Education, we are certain that we have the best and largest integrated platform for K12 services powered by technology in Brazil, with the capacity to meet all the educational needs of schools through the delivery of innovative and high-quality solutions, including print and digital content, methodology, assessment, teacher training and technology platforms to support the teaching-learning process, and more. To deliver this integrated platform, Kroton has launched the new commercial strategy for Somos with a highly effective and unique approach. The go-to-market strategy was completely reformulated, with the sales team, which previously interfaced with the school offering isolated products and services, now reinforced and positioned as an integrated services platform. It is an important change that guides in a new phase in the relationship between Somos and its Partner Schools.

Meanwhile, in Postsecondary Education, by next year, we will have 71 new own units launched since 2017, representing growth of 63% from the initial number of units. We also are inaugurating another 200 new third-party units this year, effectively increasing the number of DL centers from 910 at the start of 2017 to 1,510 at the end of 2019. The performance of all this new capacity is exceeding our initial projections and signaling a very prosperous future, which will make an important contribution to the segment's growth over the coming years.

And all this has been accompanied by consistent improvement in our net promoter score (NPS), which gauges the level of satisfaction based on our students' experience of the academic and the service offered at the various Business Units. In the last 12 months, we have managed to improve our performance in all analyses. At own units the increase was 31 percentage points, at third-party units we improved 4 percentage points, and in Graduate education the increase was even more relevant, of 48 percentage points.

An important factor supporting the improvement of NPS is the digitalization of the student experience, whether in our academic, administrative or financial services. This evolution is clear evidence that the Company's digital transformation is effectively revolutionizing the quality and velocity of deliveries guided by the Strategic Planning, whose core focus is Student Success.

Kroton's digital transformation is based on three key pillars that ultimately seek a cultural transformation. The first is implementing agility on a large scale, i.e., implementing agile systems development models. For this, we migrated 100% of our team to the agile method and currently have over 600 people distributed among 55 agile teams to ensure the delivery of over 500,000 hours of development in the last 12 months. It is a relevant and bold cultural change that places Kroton among the few Brazilian companies with 100% of their development teams working on agile teams. A second pillar of our transformation is the development of digital capabilities. We are investing time, financial resources and attracting and retaining talent to develop in the organization the capabilities considered key for this transformation: Systems Architecture, Analytics and Customer Experience and User Experience Design. The third pillar is the development of a comprehensive open innovation project, through our partnership with Cubo Itaú. The contact with the innovation ecosystem oxygenates the entire company. We already have a pipeline of 250 startups, 30 of which are in the process of curatorship/connection, 8 in the pilot design phase, 2 in experimentation and 5 with investments concluded or in the closing process. All these initiatives already are having a material impact on our organization, which is the greatest goal of our digital transformation movement.

Imbued with this enthusiasm, in April, we held our annual meeting with around 600 leaders of the Company, including those originally from Kroton and Somos, to align our strategic guidelines and increase all efforts to better position Kroton before our students, partners and other stakeholders. It was three intense days of much content that always underscored that our possibilities for growth, efficiency and quality improvement go hand in hand and will be embraced by all the digital transformation initiatives.

And with all this happening, we are certain that, once again, we will overcome any challenges and deliver solid short-term results, without losing sight of future value creation.

OPERATING PERFORMANCE

POSTSECONDARY EDUCATION

Evolution in Number of Postsecondary Students

At the end of 1Q19, Kroton had 960,941 students enrolled in the Postsecondary segment (Undergraduate and Graduate), considering the On-campus and Distance Learning formats, representing contraction of 3.6% from the same period last year. This marginally negative variation in the student base reflects the higher number of graduations in the period due to the robust new enrollments in 2013 and 2014, as well as the shift in the student profile, with fewer FIES students (who traditionally have lower dropout rates) and more students enrolled in 100%-online DL programs (who have a higher propensity to drop out). The dropout rate also was pressured by the political and economic uncertainty observed in the prior year and the persistence of a high unemployment rate. At any rate, this attest to the resilience and effectiveness of the commercial strategy adopted by Kroton, which was able to deliver robust student-recruiting results despite the scenario of more intense competition. This performance reinforces Kroton's strong brands, academic quality and key competitive advantages for continually enhancing the student experience, such as its employability channel Conecta, which continues to expand rapidly. Compared to the prior quarter, the 12.2% expansion in the base reflects the student-recruiting process at the start of the year, which added about 332,000 students to the base at once. A breakdown by teaching format in Postsecondary Education shows that the On-campus segment accounted for 40% of the student base, while the Distance Learning segment accounted for the other 60%.

Note that the new enrollment and re-enrollment processes for the second semester of 2019 already have begun and that Kroton continues to focus on maintaining its high academic standards, while strengthening its organic growth strategies by opening new On-Campus units and new Distance Learning centers and strengthening its brands and sales actions to deliver growing results in student recruiting and retention.

1. Undergraduate

1.1 On-Campus Undergraduate

The new enrollment and re-enrollment processes in the On-campus at the start of the year were concluded with very solid results, which reinforces the Company's resilience to deliver consistent and sustainable results. A total of around 108,000 students were enrolled in Undergraduate programs, including out-of-pocket, FIES and PEP students, representing growth of 4.1% on the prior year, which reflects the Company's efforts to adopt a commercial strategy effectively aligned with market demand, with a strong share of engineering and healthcare programs. These factors were crucial for neutralizing the impacts from the still-challenging economic scenario, particularly the high unemployment rate. The results also were supported by the 29 new units (greenfield and acquisitions) launched in 2018.2 and 2019.1, which enrolled about 3,500 new students in this last process, surpassing the target for this group. These initial results attest to the effectiveness of Kroton's expansion project with regard to the selection of markets, infrastructure of units, program portfolio, academic quality and building of brand awareness. Excluding the figures from expansion projects, new enrollments in the On-Campus grew 1%, which is still a solid result considering the current economic context and competitive scenario.

In addition, 4,560 ProUni students were enrolled in the process, down from the same period last year, although still in compliance with the program's rules (POEB), since Kroton still exceeds the minimum number of students required.

The re-enrollment process (enrollments of students in the second to last academic semesters) also achieved very solid results considering the market conditions faced in the period, registering a decline of 8% from the same period last year, which lagged the growth in graduations (17.0%, versus 12.8% in 2018.1).

Adding to the 112,967 new students enrolled in 2019.1 the 266,221 students re-enrolled in the period, the student base in the On-Campus Undergraduate business in the semester came to 379,188 students, down 6.6% from 2018.1, reflecting the higher number of graduations and the lower number of ProUni students enrolled. These effects ended up neutralizing the robust enrollment of students paying out of pocket and the improvement in the dropout rate given the maturation of the initiatives implemented under the Retention Program.

FIES

At the end of 1Q19, the Company had 66,103 students enrolled with FIES contracts, down 43.3% from the same period of 2018, following the trend of recent quarters, with increasingly fewer new students under the financing program and higher graduations of these students. To illustrate this behavior, in the recently ended student-recruiting process, FIES accounted for only 810 students, down 73.1% from the number of new FIES students enrolled last year, which already was low. Moreover, the number of graduations of FIES students at the end of the semester was very high, which indicates that the program should account for a marginal share of students over the coming years. As a result, FIES students accounted for 17.4% of the On-Campus Undergraduate base, or 7.2% of the total Undergraduate student base, down 11.3 p.p. and 5.0 p.p., respectively, from a year earlier.

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

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

At the end of 1Q19, Kroton had 58,215 students enrolled in PEP programs, of whom 30,888 were enrolled in PEP30 and 27,327 in PEP50. In the most recent student-recruitment process, 12,503 new students were enrolled with one of the two PEP plans (PEP30 and PEP50), representing roughly 11% of On-Campus new enrollments. The figure was 50.4% lower than in the second semester of last year, reflecting the new commercial strategy adopted, with a sharper focus on PEP50 students, who, for the first time ever, accounted for more than 70% of all new students enrolled in the program, which should help improve Kroton's cash generation.

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

Meanwhile, PMT (or temporary PEP) is an alternative for the payment in installments of monthly tuitions related exclusively to periods during which new students were not yet enrolled because they were admitted after the start of classes, but still with sufficient time to complete the minimum classroom hours in the semester. Instead of exempting students from these monthly tuitions, Kroton started to offer this option to new On-campus students as of the second semester of 2016, and to new DL students as of the first semester of 2017. 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 accrued for 50% of the amounts financed. In addition, as with the policy adopted for PEP, the outstanding balance of these tuitions becomes due automatically if the student drops out before graduation.

On-Campus Dropout Rate

The dropout rate in the On-Campus segment improved significantly, to 10.4% in 1Q19, down 0.8 p.p. from a year earlier and even below the dropout rate in 1Q16. The result reflects the efforts made to reduce the indicator concentrated under the Retention Program, which, since 2018, includes retention teams at all units, who use predictive models to identify students with the highest propensity to drop out. The Company also has adopted various measures to drive student engagement through both adaptive learning products and assessment solutions based on gamification, in which student engagement is a part of the overall score for the semester. The result is even more remarkable considering the pressures from the macroeconomic scenario marked by still-high unemployment rates and from the shift in the student base profile, with the graduation of FIES students, since, given the program's original characteristics, these students were less likely to drop out.

1.2 Distance Learning Undergraduate

In the Distance Learning business, the Company once again demonstrated its resilience and competitive advantages by delivering another period of positive results, especially considering the scenario of significantly higher competition following the introduction of the new regulatory framework for the segment in 2017. This quarter, more than 199,000 students paying out of pocket were enrolled in DL Undergraduate programs (including roughly 16,000 new students from the centers opened in 2018.2 and 2019.1), which is in line with the performance of the same period last year. Despite the stability, this is a very satisfactory result given the current competitive environment and reflects the Company's efforts and expertise in this segment, coupled with its high-quality education, cutting-edge technology, unique and constantly monitored partner network and complete program portfolio, with offerings ranging from 100%-online programs to Premium DL programs. This semester, Premium DL programs accounted for 14% of total new enrollments in the Distance Learning segment, increasing 4 p.p. from 1S18, which attests to the product's excellent acceptance, which once again enabled Kroton to expand its footprint in higher-value programs and to grow its addressable market. Meanwhile, 100%-online programs accounted for 22% of new students in 1Q19, with this share stable compared to the same period last year. Lastly, as in the On-Campus, the recruiting of ProUni students decreased, with 2,828 new enrollments, which also did not affect compliance with the POEB rules.

Adding the 202,026 new students to the 334,264 students who re-enrolled in the period, the Company ended the first quarter of 2019 with 536,890 students, down 2.7% from a year earlier.

DL Dropout Rate

In the Distance Learning segment, the dropout rate was 14.6% in 1Q19, up 1.6 p.p. from last year (although still lower than in 1Q17), reflecting the growth in 100%-online students, who are more likely to drop out given their lower engagement, as well as the effects from the high unemployment and the significantly more intense competitive environment. These effects were partially offset by the roll-out to this segment of the initiatives of the Retention Program.

2. Continuing Education

2.1 Graduate

Considering only Graduate programs, the student base expanded 14.2% on the year-ago period, supported by the enrollment of around 17,000 new students coming mainly from Distance Learning programs. The performance more than offset the significant number of graduations, of approximately 12,000 students. Bear in mind that the Preparatory Courses (LFG) business also offers Graduate programs, whose students are included in the total student number in the segment. Therefore, Kroton ended the quarter with about 44,900 students enrolled in Graduate programs, of whom 35,300 students were in Distance Learning programs and 9,500 were in On-Campus programs.

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

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. Positioned as a reference in preparatory courses, LFG registered an average student base of 28,427 in 1Q19, representing a decrease of 3.7% from the same period of 2018.

Kroton also offers short-duration open enrollment programs that allow students to increase their knowledge in various fields, such as Management, Education, Mathematics and Languages. In 1Q19, there were 10,640 students enrolled in these programs, down 14.0% from the previous year.

With the acquisition of Somos, the business segment of Educational Solutions for Vocational and Postsecondary Education (SETS) was consolidated under the Continuing Education Vice-President. SETS is responsible for the sale of books with the Saraiva brand to Postsecondary Education, learning systems to vocational programs under the brand Érica, and preparatory courses for civil servant exams. The main products offered include the sale of Scientific, Technical and Professional books, especially in the fields of Law, Business Administration, Economics and Accounting, Technical and Non-Fiction. in 1Q19, a total of 562,778 books were sold, representing an increase of 12.0% from the same period last year, despite the adverse scenario for book retailers in the period.

PRIMARY & SECONDARY EDUCATION (K-12)

1. K-12 Integrated Platform as a Service & PNLD/Official Contracts

The K-12 Integrated Platform as a Service & PNLD/Official Contracts (K-12 Platform) includes a comprehensive portfolio of products and services, through brands such as: Anglo, Saraiva, Pitágoras, Ática, Maxi, PH, Plurall, Ético, Scipione, Livro Fácil, OLEM, English Stars and others to support our partners schools in all their needs.

As a Platform, the Company opts to be agnostic with regard to the teaching choices made by each school, providing the methodology solution the school chooses: Learning Systems or Textbooks. As a result, instead of an addressable market of 3.8 million students (in schools using the Learning System), it is added as potential market another 2.4 million students (in schools using Textbooks), thereby expanding our addressable market by 63%. From the business perspective, the relationship with the school that opts for Textbooks is maintained through long-term contracts. In 2017, the Company developed the Educational Partnership (PAR), a new way of interacting with the schools that adopt textbooks, through long-term contracts whereby schools undertake to adopt a certain minimum percentage of books published by the group's publishers in exchange for services that are equivalent to those offered by the Learnings Systems (teaching assistance, access to technology, assessments and more). Also from the business perspective, the dynamics of PAR is similar to that of Learning Systems, but enables the Company to address the huge market of schools that prefer textbooks or blended-learning schools. Therefore, this business decisions gives us a competitive edge with an adequate business model (subscription model and recurring revenue), while expanding the addressable market by 63%.

2. School Management

In School Management, we operate a total of 54 schools, with 47 own schools and 7 contracted schools (for which third-party companies contract us to fully manage their schools). Kroton has various brands that are references in quality and serve roughly 37,000 students.

The School Management Business Unit includes the Red Balloon language operations, which are offered in three formats: own units, in-school operations and franchises. Red Balloon currently serves approximately 25,800 students. As a result, the total number of students served by the School Management Business Unit is about 62,800.

FINANCIAL PERFORMANCE

Net Revenue

Net revenue amounted to R$1,839.1 million, up 34.9% from 1Q18, reflecting the consolidation of Somos and of the other schools acquired by Saber during 2018 (Leonardo da Vinci and Lato Sensu). These effects more than offset the decrease in net revenue from postsecondary education, which is explained by the lower number of students enrolled in Own Units due to the higher number of graduations associated with the robust enrollment of new students in 2013 and 2014, in addition to the shift in the student profile and the lower average ticket in the period (fewer classroom hours and higher discounts granted in renegotiations)

Costs

The cost of goods and services corresponded to 37.1% of net revenue in 1Q19, increasing by 1.1 p.p. from 1Q18, reflecting the consolidation of Somos and the higher share of segments that require a more robust cost structure.

Gross Income

In 1Q19, gross income amounted to R$1,156.9 million, with gross margin of 62.9%, representing growth of 32.6% and compression of 1.1 p.p. respectively, due to the aforementioned impacts.

Operating Expenses

Selling Expenses

Selling expenses include expenses with the sales team, advertising and marketing, copyrights and Provision for Doubtful Accounts (PDA). In 1Q19, these expenses corresponded to 19.1% of net revenue in the period, improving 1.1 p.p., reflecting the lower PDA in Primary & Secondary Education due to the consolidation of Somos and the higher contribution from B2B businesses to the segment's results.

General and Administrative Expenses

General and administrative expenses include expenses with administrative personnel, consulting services, travel, outsourcing and other. In 1Q19, this group of expenses corresponded to 22.6% of net revenue, increasing 10.0 p.p. from 1Q18, reflecting the consolidation of Somos, the higher cost and expense structure of the new units in Postsecondary Education and the higher marketing expenses in both segments.

Other Operating Income (Expenses)

Other operating income amounted to R$2.5 million in 1Q19, compared to an expense of R$0.7 million in 1Q18.

Financial Result

In 1Q19, the net financial result was an expense of R$137.1 million, compared to net financial income of R$59.2 million in 1Q18, reflecting the financial charges related to the debt secured to pay for Somos and the impact from the adoption of IFRS16.

Net Income (Loss)

In 1Q19, net income amounted to R$250.1 million, with net margin of 13.6%, representing a reduction of 47.4% and compression of 21.3 p.p., respectively, on the prior-year period. The factors affecting this performance include: (i) the deterioration in the operating result from Postsecondary Education due to the smaller student base and the shift in the student profile, which required higher provisioning; (ii) the higher depreciation related to the investments in the production of content and technology, which have shorter useful lives; and (iii) the higher financial expenses due to the debt secured for the acquisition of Somos.

Capex and Investments in Expansion

In 1Q19, Kroton invested R$106.7 million, allocated as follows:

- Information technology and library equipment: R$7.2 million (7%);
- Content and systems development and software licenses: R$74.3 million (70%);
- Laboratory and related equipment: R$8.0 million (6%);
- Expansions – construction and improvements: R$18.9 million (18%).

In 1Q19, capex corresponded to 5.8% as a ratio of net revenue, most of which was allocated to content development, systems and software licenses, which accounted for 70% of the total amount and accompanied the expansion of Kroton's portfolio in recent years, especially with the addition of new Premium DL programs, in addition to K-12 content. In this respect, note that, after the consolidation of Somos, Kroton now makes publishing investments for the production of teaching materials, already incorporated in total capex. Another large expenditure was related to the expansion projects, with renovations and improvements at existing units to prepare them to meet students' expectations at the start of the school year, and to adapt them to the change in the program portfolio being implemented by the Company.

We highlight that as of this quarter investments in special projects are part of recurring Capex, i.e. all investments, except expansion, are contained in the "Capex" line.

Net Debt

At the end of 1Q19, total cash and financial investments amounted to R$2.0 billion, down 22.0% from the previous quarter, reflecting the expenditures made in the quarter related to the cash burn of the operation and the payment of interest on debentures. After the consolidation of Somos and its liabilities into the balance sheet of Saber (a wholly owned subsidiary of Kroton), total net debt ended 1Q19 at R$5.5 billion. Considering all short-term and long-term obligations, which include taxes and contributions paid in installments and the obligations and rights related to past acquisitions, Kroton ended the period with net debt of R$5.9 billion. Total long-term obligations include amounts related to installment payments for acquisitions, especially those for Uniasselvi, which are being repaid in six annual installments since 2013, in addition to various debentures issued by Kroton and Somos over the last few years. In addition, it is important to remember that Kroton also has short-term and long-term receivables that will have a positive impact on its cash in the coming years. These receivables include both short-term accounts receivables, which correspond to one of the installments from the sales of Uniasselvi, FAIR and FAC/FAMAT, and long-term accounts receivables related to the remaining 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 debt balance would be even slightly lower, at R$5.4 billion. However, it is important to note that the current investment level is consistent with the Company's projects and opportunities, and is below the financial covenants agreed upon with bondholders.

Cash Flow

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

On this basis, operating cash generation before capex was negative R$123.2 million in 1Q19, which is substantially lower than in 1Q18, explained by the consolidation of Somos in 1Q19, which has a cash burn profile in the first quarter of each year. Excluding Somos, the performance of operating cash generation before capex in 1Q19 was in line with 1Q18, despite the significant decrease in the FIES student base. Considering the disbursements for capex in the period, operating cash generation was negative R$229.8 million in 1Q19, a level that could be considered temporary, since the payments under federal programs are expected in the coming months, as also is a recovery in operating result over the year. Meanwhile, free cash flow was negative R$588.6 million, which reflects not only the negative cash generation in the period, but also all the ongoing special projects, such as the expansion projects (organic and via acquisitions) and the payment of interest expenses.

The guidance for operating cash generation after capex forecasts a 64% growth in 2019 (corporate analysis), with a positive generation of R$800.0 million.

CAPITAL MARKETS AND SUBSEQUENT EVENTS

STOCK PERFORMANCE

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

The stock was traded in 100% of trading sessions during the quarter, registering financial trading volume of R$8.3 billion and 1,513,983 trades in the period, which represents average daily trading volume of R$138.0 million. Kroton stock is currently covered by research analysts at 11 different local and international institutions. On March 31, 2019, Kroton’s market capitalization was R$17.4 billion.

In the first quarter of 2019, Kroton’s stock price increased 19.5%, while the Bovespa Index (Ibovespa) advanced 8.6%. In the same period, the IGC ITAG and ICON gained 8.3%, 8.1% and 6.6%, respectively

CREDIT RATINGS

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

OWNERSHIP STRUCTURE

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

DIVIDENDS

In a Meeting held on May 15, 2019, the Board of Directors approved the distribution of dividends related to the results for the first quarter of 2019 in the amount of R$90.5 million, which will be calculated towards the minimum mandatory dividend for 2019 and corresponds to R$ 0.0555371865 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 May 21, 2019 are entitled to the dividends.

ABOUT KROTON EDUCACIONAL

Kroton Educacional S.A. is one of the largest private for-profit educational organizations in the world. Operating for over 50 years, the Company has a nationwide presence in all of Brazil’s states. At the end of 1Q19, Kroton had 961,000 students enrolled in its On-Campus and Distance Learning Postsecondary Education programs at its 155 Postsecondary units and its 1,410 Distance Learning centers. It also offers Preparatory Courses under the brand LFG. On October 11, 2018, Kroton concluded the acquisition of SOMOS Educação, the leading primary and secondary education group in Brazil, making it a complete educational platform with an important presence in all segments. In Primary & Secondary Education, in 1Q19, the consolidated operation had 37,000 students in 54 own schools, 26,000 students in 125 units of Red Balloon, and 1.6 million students served through approximately 4.6,000 associated schools using the learning systems PAR and O Líder em Mim.

1. DISCLOSURE OF EBITDA

According to CVM Instruction 527/12, the Company adhered to the disclosure of the non-accounting information as additional aggregate information in its quarterly information, presenting the EBITDA – Earnings Before Interest, Taxes on Income including Social Contribution on Profit (Loss) Net, Depreciation and Amortization, for period the three months ended March 31, 2019 and 2018.

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

	Consolidated	
	03/31/2019	03/31/2018
Net income	250,149	475,415
Income and social contribution tax	6,337	9,416
Financial result - note 30	137,143	(59,214)
Depreciation - note 29	262,931	102,223
Accounting EBITDA	656,560	527,840
(+) Interest and penalties on tuition - note 30	66,203	41,408
Management EBITDA	722,763	569,248
(-) Nonrecurring items (i)	55,700	43,626
Adjusted EBITDA	778,463	612,874

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

	Consolidated	
	03/31/2019	03/31/2018
Termination	25,808	11,245
Restructuring of units	-	10,188
M&A and expansion	29,892	13,353
Others projects	-	8,840
Total Nonrecurring items	55,700	43,626

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

Opinions and representations/Officers' representation on the accounting information

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

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

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