

(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 September 30, 2019
and Report on Review of Interim
Financial Information

Deloitte Touche Tohmatsu Auditores Independentes

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Kroton Educacional S.A. ("Company"), identified as Parent and Consolidated, respectively, included in the Interim Financial Information Form (ITR) for the quarter ended September 30, 2019, which comprises the balance sheet as at September 30, 2019 and the related statements of income and of comprehensive income for the three- and nine-month periods then ended, and of changes in equity and of cash flows for the nine-month period 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 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 and Exchange Commission (CVM), applicable to the preparation of Interim Financial Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Other matters

Restatement of the comparative financial statements

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

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Conclusion on the individual and consolidated interim financial information

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

Other matters

Statements of value added

We have also reviewed the individual and consolidated statements of value added ("DVA") for the nine-month period ended September 30, 2019, prepared under the responsibility of the Company's Management, the presentation of which in the interim financial information is required by the standards issued by CVM applicable to the preparation of Interim Financial Information (ITR), and is considered as supplemental information for International Financial Reporting Standards - IFRSs, 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 individual and consolidated interim financial information taken as a whole.

Corresponding figures for the year ended December 31, 2018 and the three- and nine-month periods ended September 30, 2018

The corresponding figures for the year ended December 31, 2018 and the three- and nine-month periods ended September 30, 2018, presented for purposes of comparison, were previously audited/reviewed by other independent auditors, who issued opinions thereon, dated March 29, 2019 (reissued without any qualification on August 14, 2019) and November 9, 2018.

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

Belo Horizonte, November 13, 2019


DELOITTE TOUCHE TOHMATSU
Auditores Independentes


Roberto Torres dos Santos
Engagement Partner

Kroton Educacional S.A. and Subsidiaries

**Interim Financial Information (ITR) for the
Quarter Ended September 30, 2019
and Report on Review of Interim
Financial Information**

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

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

BALANCE SHEETS

As at September 30, 2019 and December 31, 2018

(In thousands of Brazilian reais - R\$)

ASSETS	Note	Parent		Consolidated	
		09/30/2019	12/31/2018	09/30/2019	12/31/2018
Current assets			(Restated Note 2.1)		(Restated Note 2.1)
Cash and cash equivalents	7	13,064	10,057	174,342	1,485,611
Securities	8	-	-	245,809	1,098,185
Trade receivables	9	-	20	2,336,243	1,940,313
Inventories	10	-	-	431,919	387,507
Advances	-	-	-	45,340	69,239
Recoverable taxes	11	5,492	3,913	407,011	315,169
Receivables from sale of subsidiaries	12	-	-	137,566	132,854
Other receivables	13	226	179	138,022	150,937
Related parties	27	29,133	-	-	304
Total current assets		47,915	14,169	3,916,252	5,580,119
Noncurrent assets					
Long-term receivables					
Securities	8	-	-	16,109	11,774
Trade receivables	9	-	-	732,824	694,283
Advances	-	-	-	1,680	1,679
Recoverable taxes	11	-	-	6,447	5,829
Receivables from sale of subsidiaries	12	-	-	381,131	361,551
Other receivables	13	-	-	66,264	58,125
Guarantee against losses in tax, labor and civil contingencies	23	35,406	43,509	1,096,093	933,219
Escrow deposits	22.3	345	298	79,719	102,656
Deferred income tax and social contribution	24	-	-	785,970	748,501
Related parties	27	800,218	-	-	-
Investments	14	16,628,923	16,539,405	8,339	-
Property, plant and equipment	15	-	-	5,360,731	2,494,528
Intangible assets	16	61,376	69,560	20,261,260	20,956,865
Total noncurrent assets		17,526,268	16,652,772	28,796,567	26,369,010
Total assets		17,574,183	16,666,941	32,712,819	31,949,129

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

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

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

BALANCE SHEETS

As at September 30, 2019 and December 31, 2018

(In thousands of Brazilian reais - R\$)

LIABILITIES	Note	Parent		Consolidated	
		09/30/2019	12/31/2018	09/30/2019	12/31/2018
Current liabilities			(Restated Note 2.1)		(Restated Note 2.1)
Borrowings and financing	17	-	-	531	4,671
Debentures	17	23,064	-	392,774	522,846
Trade payables	-	212	482	292,872	474,980
Trade payables purchaser's risk	18	-	-	307,258	391,974
Leases	19	-	-	209,525	-
Payroll and related taxes	20	-	2,970	552,005	508,251
Income tax and social contribution payable	-	148	-	48,578	27,875
Taxes payable	-	535	8	88,742	75,676
Advances from customers	-	1	-	185,750	303,857
Taxes in installments	-	-	-	14,446	14,521
Payables for acquisitions	21	-	-	106,330	132,440
Dividends payable	-	71	26,877	343	27,178
Other payables	-	-	82	25,510	81,227
		24,031	30,419	2,224,664	2,565,496
Noncurrent liabilities					
Borrowings and financing	17	-	-	281	50,445
Debentures	17	798,323	-	7,617,440	7,105,660
Leases	19	-	-	3,073,665	-
Payables for acquisitions	21	-	-	176,804	193,357
Provision for tax, labor, and civil contingencies	22.1	37,805	63,989	364,326	422,933
Liabilities assumed in business combination	23	16	-	2,556,873	3,213,048
Taxes in installments	-	-	-	20,346	27,299
Deferred income tax and social contribution	24	651,538	669,873	600,836	879,977
Other payables	-	4	16	12,899	17,854
		1,487,686	733,878	14,423,470	11,910,573
Total liabilities		1,511,717	764,297	16,648,134	14,476,069
Equity					
Capital	25	5,011,677	4,425,677	5,011,677	4,425,677
Capital reserves	-	6,399,427	6,379,742	6,399,427	6,379,742
Treasury shares	-	(124,151)	(190,280)	(124,151)	(190,280)
Earnings reserves	-	4,775,513	5,287,505	4,775,513	5,287,505
Retained earnings	-	-	-	-	-
		16,062,466	15,902,644	16,062,466	15,902,644
Noncontrolling interests	-	-	-	2,219	1,570,416
Total equity		16,062,466	15,902,644	16,064,685	17,473,060
Total liabilities and equity		17,574,183	16,666,941	32,712,819	31,949,129

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

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

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME

For the Three- and Nine-Month Periods Ended September 30, 2019 and 2018

(In thousands of Brazilian reais - R\$)

		Parent				Consolidated			
	Note	01/07 to 09/30/2019	09/30/2019	01/07 to 09/30/2018	09/30/2018	01/07 to 09/30/2019	09/30/2019	01/07 to 09/30/2018	09/30/2018
Net revenue from sales and services									
Higher education	28	-	-	-	-	1,171,847	3,854,018	1,218,153	4,021,951
K-12 education	28	-	-	-	-	343,909	1,243,200	31,945	117,745
		-	-	-	-	1,515,756	5,097,218	1,250,098	4,139,696
Cost of sales and services									
Cost of services	29	-	-	-	-	(659,419)	(1,773,252)	(553,930)	(1,621,378)
Cost of sales	29	-	-	-	-	(17,168)	(223,952)	(1,826)	(17,306)
		-	-	-	-	(676,587)	(1,997,204)	(555,756)	(1,638,684)
Gross profit		-	-	-	-	839,169	3,100,014	694,342	2,501,012
Operating income (expenses)									
Selling expenses	29	-	-	-	-	(341,671)	(1,050,535)	(244,956)	(823,080)
General and administrative expenses	29	(15,973)	(30,013)	(12,263)	7,550	(403,145)	(1,293,971)	(178,426)	(555,835)
Other operating expenses, net	29	-	-	-	-	14,681	(1,756)	(196)	(6,723)
Share of profit (loss) of investees	14	31,028	416,648	354,514	1,261,927	573	(21)	-	-
Operating profit before finance income (costs) and taxes		15,055	386,635	342,251	1,269,477	109,607	753,731	270,764	1,115,374
Finance income (costs)									
Finance Income	30	14,813	24,103	596	4,970	97,265	276,336	163,654	311,122
Finance costs	30	(15,446)	(25,365)	(83)	(643)	(269,806)	(777,575)	(70,631)	(112,506)
		(633)	(1,262)	513	4,327	(172,541)	(501,239)	93,023	198,616
Operating profit before taxes		14,422	385,373	342,764	1,273,804	(62,934)	252,492	363,787	1,313,990
Income tax and social contribution									
Current	24	(148)	(148)	(1,059)	(1,559)	(16,215)	(64,604)	(24,947)	(67,033)
Deferred	24	6,112	18,335	6,112	18,335	99,872	222,822	8,977	43,623
		5,964	18,187	5,053	16,776	83,657	158,218	(15,970)	(23,410)
Profit for the period		20,386	403,560	347,817	1,290,580	20,723	410,710	347,817	1,290,580

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KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

For the Three- and Nine-Month Periods Ended September 30, 2019 and 2018

(In thousands of Brazilian reais - R\$)

		Parent			Consolidated				
	Note	01/07 to 09/30/2019	09/30/2019	01/07 to 09/30/2018	09/30/2018	01/07 to 09/30/2019	09/30/2019	01/07 to 09/30/2018	09/30/2018
Attributable to:									
Owners of the Company		20,386	403,560	347,817	1,290,580	20,386	403,560	347,817	1,290,580
Noncontrolling interests		-	-	-	-	337	7,150	-	-
Basic earnings per common share - R\$	32	-	0.25	-	0.58	-	0.25	-	0.79
Diluted earnings per common share - R\$	32	-	0.24	-	0.57	-	0.24	-	0.78

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KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

For the Three- and Nine-Month Periods Ended September 30, 2019 and 2018

(In thousands of Brazilian reais - R\$)

	Parent				Consolidated			
	01/07 to 09/30/2019	09/30/2019	01/07 to 09/30/2018	09/30/2018	01/07 to 09/30/2019	09/30/2019	01/07 to 09/30/2018	09/30/2018
Profit for the period	20,386	403,560	347,817	1,290,580	20,723	410,710	347,817	1,290,580
Other comprehensive income	-	-	-	-	-	-	-	-
Comprehensive income for the period	20,386	403,560	347,817	1,290,580	20,723	410,710	347,817	1,290,580
Attributable to:								
Owners of the Company	20,386	403,560	347,817	1,290,580	20,386	403,560	347,817	1,290,580
Noncontrolling interests	-	-	-	-	337	7,150	-	-

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

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KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

For the Three- and Nine-Month Periods Ended September 30, 2019 and 2018

(In thousands of Brazilian reais - R\$)

	Capital	Capital reserve	Earnings reserves	Treasury shares	Retained earnings	Total equity	Noncontrolling interests	Total equity
Balances as at December 31, 2017	4,363,825	6,339,682	4,506,725	(2,506)	-	15,207,726	-	15,207,726
Comprehensive income for the period								
Profit for the period	-	-	-	-	1,290,580	1,290,580	-	1,290,580
Total comprehensive income for the period	-	-	-	-	1,290,580	1,290,580	-	1,290,580
Contributions from and distributions to shareholders								
Capital increase	61,852	-	(50,000)	-	-	11,852	-	11,852
Share buyback into treasury	-	-	-	(223,268)	-	(223,268)	-	(223,268)
Recognized granted stock options	-	20,473	-	-	-	20,473	-	20,473
Treasury shares sold	-	(324)	-	1,709	-	1,385	-	1,385
Dividends	-	-	-	-	(414,849)	(414,849)	-	(414,849)
Total contributions from and distributions to shareholders	61,852	20,149	(50,000)	(221,559)	(414,849)	(604,407)	-	(604,407)
Balances as at September 30, 2018	4,425,677	6,359,831	4,456,725	(224,065)	875,731	15,893,899	-	15,893,899
Balances as at December 31, 2018	4,425,677	6,379,742	5,287,505	(190,280)	-	15,902,644	104,186	16,006,830
Restatement effects (Note 2.1)	-	-	-	-	-	-	1,466,230	1,466,230
Balances as at December 31, 2018 (restated)	4,425,677	6,379,742	5,287,505	(190,280)	-	15,902,644	1,570,416	17,473,060
First-time adoption of IFRS 16 Leases	-	-	(185,136)	-	-	(185,136)	-	(185,136)
Balances as at January 1, 2019	4,425,677	6,379,742	5,102,369	(190,280)	-	15,717,508	1,570,416	17,287,924
Comprehensive income for the period								
Profit for the period	-	-	-	-	403,560	403,560	7,150	410,710
Total comprehensive income for the period	-	-	-	-	403,560	403,560	7,150	410,710
Contributions from and distributions to shareholders								
Capital increase	586,000	-	(586,000)	-	-	-	-	-
Share-based payment	-	(3,675)	-	25,798	-	22,124	-	22,124
Dividends	-	-	-	-	(145,606)	(145,606)	-	(145,606)
Gain (loss) on sale of treasury shares	-	(5,974)	1,190	40,331	-	35,547	-	35,547
Transactions among shareholders	-	29,333	-	-	-	29,333	(1,575,347)	(1,546,014)
Total contributions from and distributions to shareholders	586,000	19,685	(584,810)	66,129	(145,606)	(58,602)	(1,575,347)	(1,633,949)
Balances as at September 30, 2019	5,011,677	6,399,427	4,517,559	(124,151)	257,955	16,062,466	2,219	16,064,685

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

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KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS – INDIRECT METHOD

For the Three- and Nine-Month Periods Ended September 30, 2019 and 2018

(In thousands of Brazilian reais - R\$)

	Note	Parent		Consolidated	
		09/30/2019	09/30/2018	09/30/2019	09/30/2018
Cash flows from operating activities					
Profit before income tax and social contribution		385,373	1,273,804	252,492	1,313,990
Reconciliation adjustments to profit or loss:					
Depreciation and amortization	15 and 16	56,287	56,218	385,302	262,876
IFRS 16 depreciation	30	-	-	225,124	-
Amortization of allocated goodwill	29	-	-	282,916	55,308
Amortization of publishing cost		-	-	54,456	-
Amortization of inventory appreciation		-	-	18,267	-
Allowance for doubtful debts	9	-	-	568,654	498,674
Provision for (reversal of) tax, labor, and civil contingencies	22	(17,899)	(43,274)	(96,236)	(293,190)
Allowance for (reversal of) inventory losses		-	-	(24,859)	133
Financial charges on borrowings and debentures	17	23,727	-	438,743	63,888
Financial charges arising on acquisitions	21	-	-	13,526	(1,905)
Financial charges on leases	19	-	-	227,059	-
Financial charges on tax and labor provisions		-	-	16,664	-
Stock option granting		2,766	20,473	22,126	20,473
Gain on sale or disposal of assets and other investments		-	-	67,812	11,366
Income from securities	30	-	-	(69,771)	-
Share of profit (loss) of investees	14	(416,648)	(1,261,927)	(21)	-
		33,606	45,294	2,382,254	1,931,613
Changes in operating assets and liabilities:					
(Increase) decrease in trade receivables		20	-	(960,370)	(747,415)
(Increase) decrease in inventories		-	-	(99,931)	(3,406)
(Increase) decrease in advances		-	29	17,469	(2,320)
(Increase) decrease in recoverable taxes		(1,579)	(1,523)	(33,684)	40,792
(Increase) decrease in escrow deposits		(47)	(66)	23,037	208,581
(Increase) decrease in related parties		(5,819)	-	304	-
(Increase) decrease in other receivables		5,777	(79)	(3,897)	(10,253)
(Decrease) increase in trade payables		(270)	203	(154,879)	(5,965)
(Decrease) increase in trade payables purchaser's risk		-	-	(84,716)	-
Finance lease payment		-	-	(384,201)	-
(Decrease) increase in payroll and related taxes		(2,970)	(39,834)	43,754	48,213
(Decrease) increase in taxes payable		527	(321)	(44,818)	(39,726)
(Decrease) increase in advances from customers		1	-	(118,107)	(106,932)
(Decrease) increase in taxes in installments		-	-	(8,028)	(11,753)
Payment of provision for tax, labor, and civil contingencies	22	(183)	(4)	(133,845)	9,243
(Decrease) increase in other payables		(1,058)	(1,291)	(177,723)	(171,551)
Cash generated by operating activities		28,005	2,408	242,619	1,139,121
Income tax and social contribution paid		-	-	(58,440)	(56,456)
Interest on borrowings and debentures paid	17	-	-	(533,443)	(13,225)
Net cash generated by (used in) operating activities		28,005	2,408	(329,264)	1,069,440
Cash flows from investing activities					
Redemption of securities		-	-	917,812	(2,609,519)
Additions to property, plant and equipment	15	-	-	(215,400)	(377,205)
Additions of intangible assets	16	-	-	(280,300)	(190,633)
Payables for acquisitions	21	-	-	60,368	(191,848)
Acquisitions of subsidiaries		-	-	(68,464)	112,617
Cash acquired in business combination		-	-	(1,806)	-
Increase in subsidiaries' capital		(178,700)	(240,002)	-	2,269
Receivables from former owners		-	-	-	3,104
Dividends received from subsidiaries		332,636	776,015	-	-
Private purchase of debentures		(800,000)	-	-	-
Interest on private debentures		(23,532)	-	-	-
Net cash (used in) generated by investing activities		(669,596)	536,013	412,210	(3,251,215)
Cash flows from financing activities					
Capital increase		-	11,852	-	11,852
Sale (buyback) of treasury shares		35,547	(221,559)	35,547	(221,559)
Acquisition of noncontrolling interests		-	-	(1,717,205)	-
Issue of debentures		797,661	-	797,661	5,473,366
Repayment of borrowings and financing and debentures	17	-	-	(321,608)	(124,351)
Payment of dividends to shareholders		(188,610)	(506,697)	(188,610)	(506,697)
Net cash used in (generated by) financing activities		644,598	(716,404)	(1,394,215)	4,632,611
Increase (decrease) in cash and cash equivalents, net		3,007	(177,983)	(1,311,269)	2,450,836
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	13,064	22,587	174,342	3,372,164
Increase (decrease) in cash and cash equivalents, net		3,007	(177,983)	(1,311,269)	2,450,836

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

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KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF VALUE ADDED

For the Three- and Nine-Month Periods Ended September 30, 2019 and 2018

(In thousands of Brazilian reais - R\$)

	Parent		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Revenue from sales and services	-	-	5,097,218	4,139,696
Receivables from sale of subsidiary	-	-	-	-
Other income	-	-	72,471	(1,525)
Allowance for doubtful debts	-	-	(568,654)	(498,674)
	-	-	4,601,035	3,639,497
Inputs purchased from third parties				
Cost of sales and services	-	-	(205,685)	(17,306)
Supplies, power, outside services and other inputs	24,913	43,483	(460,205)	(577,589)
Derecognition of goodwill of subsidiaries sold	-	-	-	-
Gross value added	24,913	43,483	3,935,145	3,044,602
Withholdings				
Depreciation and amortization	(2,360)	(56,218)	(610,426)	(318,184)
Amortization of allocated goodwill	(53,927)	-	(282,916)	-
Amortization of publishing costs	-	-	(72,723)	-
Net value added	(31,374)	(12,735)	2,969,080	2,726,418
Wealth received in transfer				
Share of profit (loss) of investees	416,648	1,261,927	(21)	-
Finance income	24,103	4,970	276,336	311,122
Total wealth for distribution	409,377	1,254,162	3,245,395	3,037,540
Wealth distributed				
Personnel:				
Direct compensation	(271)	(17,324)	1,166,803	902,787
Benefits	-	-	104,396	69,728
Payroll taxes	(1,107)	(693)	413,275	102,702
Taxes, fees and contributions				
Federal	(18,187)	(19,049)	(132,557)	225,508
State	3	5	635	248
Municipal	14	-	8,442	24,240
Lenders and lessors:				
Finance costs	25,365	643	777,575	112,506
Rentals	-	-	430,733	315,365
Copyrights	-	-	65,383	(6,124)
Shareholders:				
Earnings retained in the periods	403,560	1,290,580	410,710	1,290,580
Total wealth distributed	409,377	1,254,162	3,245,395	3,037,540

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

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1. GENERAL INFORMATION

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

The Group owns 74 companies, including Kroton Educacional S.A., and consists of 18 sponsors of college education entities, 158 college education units, distributed among 21 Brazilian states and 116 Brazilian cities, as well as 1,410 distance learning (EAD) Graduation Centers accredited by the Ministry of Education (“MEC”), located in all Brazilian states and the Federal District. The Company also operates 54 owns K-12 Education schools, 125 Red Balloon units, and 3,961 associated schools nationwide.

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

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

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

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

This individual and consolidated interim financial information was approved by the Company’s Board of Directors and authorized for issue on November 13, 2019.

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2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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Also, pursuant to IFRS 3/CPC 15 (R1), Management has preliminarily elected for the recognition of noncontrolling interests using the proportional interest method. As at June 30, 2019, after the revision of preliminary recognitions of the noncontrolling interests, Management changed the measurement method of noncontrolling interests to fair value, replacing the proportional interests in the acquiree's net assets, because it understands that this method reflects more appropriately the economic aspects of the Somos acquisition transaction and consequently disclosing material information for the users of financial statements. As a result, the Company, therefore, recognized R\$1,575,195 as noncontrolling interests, which is equivalent to 69,853,431 shares valued at their quotation on B3 on October 11, 2018, the completion date of the acquisition of noncontrolling interests.

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

Said adjustments are shown below:

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

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Effect statement – consolidated

	Original	Adjustment	Consolidated Restated
Current assets			
Inventories	370,657	16,850	387,507
Total current assets	5,563,269	16,850	5,580,119
Noncurrent assets			
Deferred income tax and social contribution	515,900	232,601	748,501
Property, plant and equipment	2,485,643	8,885	2,494,528
Intangible assets	19,911,110	1,045,755	20,956,865
Total noncurrent assets	25,081,770	1,287,241	26,369,011
Total assets	30,645,039	1,304,091	31,949,130
Current liabilities	2,565,498	-	2,565,498
Noncurrent liabilities			
Deferred income tax and social contribution	1,042,115	(162,138)	879,977
Total liabilities	14,638,209	(162,138)	14,476,071
Equity	15,902,644		15,902,644
Noncontrolling interests	104,186	1,466,229	1,570,415
Total equity	16,006,830	1,466,229	17,473,059
Total liabilities and equity	30,645,039	1,304,091	31,949,130

2.2. Adoption of new accounting standards

2.2.1. CPC 06 (R2)/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/CPC 16 (R2).

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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 9.81%;
- Those contracts for which the lease term ends within 12 months of the date of initial application of the standard were recognized;
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

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

	Disclosed	Adjustments	Consolidated
	12/31/2018	due to adoption	Balance as at
	(Restated Note 2.1)	of CPC 06	01/01/2019
		(R2)/IFRS 16	
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	2,494,528	2,976,633	5,471,162
Deferred taxes	748,501	89,313	837,814
Total assets	5,877,625	3,074,565	8,952,191
Current liabilities			
Leases payable	-	208,769	208,769
Deferred taxes	-	-	-
Noncurrent liabilities			
Leases payable	-	3,050,865	3,050,865
Deferred taxes	879,977	67	880,044
Total liabilities	879,977	3,259,701	4,139,678
Equity			
Retained earnings	5,287,505	(185,136)	5,102,369
Total equity	5,287,505	(185,136)	5,102,369

The balances of leases payable above refer to the "Future commitments" as at September 30, 2019 are as follows:

	IFRS 16	(-) PVA	Consolidated
			09/30/2019
Up to one year	511,567	(302,042)	209,525
One year up to five years	2,269,081	(767,527)	1,501,554
Over five years	2,677,355	(1,105,244)	1,572,111
	5,458,003	(2,174,813)	3,283,190

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

	Consolidated
	09/30/2019
Income statement for the period	
Depreciation and amortization	(225,124)
Finance costs	(227,059)
Finance income	647
Other gains and losses	24,147
	(427,389)
Deferred income tax and social contribution	(13,187)
	(440,575)
Lease amounts paid in the period	384,202
Impact of the new policy on profit or loss	(56,374)

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3. BUSINESS COMBINATIONS

3.1. Faculdade Metropolitana

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

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

	CEMAR	CEPAR	CESUPAR	Faculdade Metropolitana
Current assets	2,520	2,064	672	5,256
Noncurrent assets	19,131	544	793	20,468
Total assets	21,651	2,608	1,465	25,724
Current liabilities	1,968	237	203	2,408
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 liabilities	(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	25,002	13,385	10,787	49,174

3.2. Acquisitions made in 2018

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

3.3. Completion of the Public Tender Offer - Somos

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

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

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

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

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

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

The table below shows the variations recognized in the balance sheets:

	<u>Consolidated</u>
Noncontrolling interests at fair value (i)	1,575,195
Escrow deposit withheld from noncontrolling interests	168,921
Gain on transactions among shareholders	<u>(29,333)</u>
Amount paid in Public Tender Offer	<u><u>1,714,783</u></u>

- (i) Based on 69,853,431 shares held by Somos Educação S.A. at the acquisition date, measured at the fair value of R\$22.55.

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.

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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:

	09/30/2019	12/31/2018	Consolidated Interest rate
Borrowings and financing	812	55,116	IPCA
Debentures	7,900,138	7,519,865	100% CDI + interest of 0.75% to 2% p.a.
Debentures – SABER 1 st issue, 3 rd series	110,076	108,641	IPCA + 6.72% p.a.
Payables for acquisitions	152,211	177,753	CDI
Payables for acquisitions	104,403	117,000	IPCA
Payables for acquisitions (i)	26,520	31,044	Other
Total	8,294,160	8,009,419	

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.

In 2018, the Company raised debt in the form of debentures at market costs amounting to R\$6.3 billion, which was invested in the Group's K-12 Education segment with the acquisition of Somos by subsidiary Saber, generating an increase of its financial indebtedness ratios. Additionally, acquiree Somos had a 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 entities' liquidity requirements to ensure they have sufficient cash to meet their 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 debt financing plans, compliance with covenants, and compliance with internal balance sheet ratio goals and external regulatory or legal requirements, if applicable.

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

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

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

Financial liabilities by maturity:

				Consolidated
	Less than 1 year	1-2 years	Over 2 years	Total
As at September 30, 2019				
Trade payables	292,872	-	-	292,872
Trade payables - purchaser's risk	307,258	-	-	307,258
Borrowings and financing	531	281	-	812
Debentures	392,774	2,355,346	5,262,094	8,010,214
Payables for acquisitions	106,330	58,426	118,377	283,134
	1,099,765	2,414,053	5,380,471	8,894,290

Financial liabilities by maturity – Budgeted:

				Consolidated
	Less than 1 year	1-2 years	Over 2 years	Total
As at September 30, 2019				
Trade payables	292,872	-	-	292,872
Trade payables – purchaser's risk	307,258	-	-	307,258
Borrowings and financing	564	299	-	863
Debentures	417,410	2,503,083	5,592,154	8,512,647
Payables for acquisitions	113,000	62,091	125,802	300,893
	1,131,104	2,565,473	5,717,956	9,414,533

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 September 30, 2019.

4.2. Capital management

The main goals of the Company's capital management are to protect its ability to continue as a going concern, offer good returns to the other shareholders and reliability to the 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 September 30, 2019, the Company had an adequate capital structure to facilitate its growth strategy, either organically or through acquisitions. The investment decisions take into consideration the expected return potential.

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The financial leverage ratios are as follows:

	<u>09/30/2019</u>	<u>Consolidated</u> <u>12/31/2018</u>
		(Restated Note 2.1)
Borrowings and financing, debentures and payables for acquisitions	(8,294,160)	(8,401,393)
Cash and cash equivalents and securities	436,260	2,595,570
Net cash	(7,857,900)	(5,805,823)
Equity	16,064,685	17,473,060
Financial leverage ratio	48.91%	33.23%

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: 6.27% and IPCA: 2.89% per year. Additionally, two other scenarios are provided showing a 25% and 50% stress of the risk variable considered, respectively.

	<u>Baseline exposure</u> <u>09/30/2019</u>	<u>Risk</u>	<u>Remote scenario</u>	<u>Remote scenario</u> <u>-25%</u>	<u>Consolidated</u> <u>Remote scenario</u> <u>-50%</u>
Short-term investments and securities	436,260	CDI increase	27,364	34,205	41,046
CDI-indexed debentures and payables	(8,052,349)	CDI increase	(505,076)	(631,344)	(757,613)
IPCA-indexed debentures and payables	(215,291)	IPCA increase	(6,222)	(7,777)	(9,333)
	(7,831,380)		(483,934)	(604,916)	(725,900)

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

5. FINANCIAL INSTRUMENTS BY CATEGORY

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

	<u>Parent</u>		<u>Consolidated</u>	
	<u>09/30/2019</u>	<u>12/31/2018</u>	<u>09/30/2019</u>	<u>12/31/2018</u>
Assets - amortized cost				
Cash and cash equivalents	13,064	10,057	174,342	1,485,611
Trade receivables	-	20	3,069,067	2,634,596
Receivables from sale of subsidiaries	-	-	518,697	494,405
Other receivables	226	179	204,286	209,062
	13,290	10,256	3,966,392	4,823,674

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	Parent		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Assets - Fair value through profit or loss				
Securities	-	-	261,918	1,109,959
	<u>-</u>	<u>-</u>	<u>261,918</u>	<u>1,109,959</u>
Liabilities - amortized cost				
Borrowings and financing	-	-	812	55,116
Debentures	821,387	-	8,010,214	7,628,506
Trade payables purchaser's risk	-	-	307,258	391,974
Trade and other payables, less legal obligations	216	580	614,415	899,860
	<u>821,603</u>	<u>580</u>	<u>8,932,699</u>	<u>8,975,456</u>

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

6. CREDIT QUALITY OF FINANCIAL ASSETS

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

	Consolidated	
	09/30/2019	12/31/2018
Trade receivables (Note 9)		
Group 1 - higher education	4,792,720	3,739,177
Group 2 - K-12 education	290,820	558,522
	<u>5,083,540</u>	<u>4,297,699</u>

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

	Consolidated	
	09/30/2019	12/31/2018
Cash and cash equivalents (note 7)		
AAA (i)	68,238	1,138,346
AA	13,339	18,645
A+	86,802	293,148
AA-	-	13
Not applicable	5,963	35,459
	<u>174,342</u>	<u>1,485,611</u>
Securities (note 8)		
AAA (i)	49,571	66,980
AA	6	14,248
A+	212,340	969,974
Not applicable	1	58,757
	<u>261,918</u>	<u>1,109,959</u>

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- (i) Since Santander Brasil is not rated by Fitch, the rating awarded by Standard & Poor's was used to rate the short-term investments held in this financial institution amounting to R\$72,158, of which R\$57,933 is allocated to cash and cash equivalents and R\$14,226 is allocated to securities.

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	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Cash				
Checking account	112	90	550	3,076
	112	90	550	3,076
Short-term investments				
Fixed-income fund	-	-	20,549	33,442
Repurchase agreements	-	-	48,491	137,732
National Treasury Notes (NTNO) (i)	12,952	9,967	89,478	155,773
Bank certificates of deposit (CDBs)	-	-	15,274	1,155,588
	12,952	9,967	173,792	1,482,535
	13,064	10,057	174,342	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.

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 97.39% of CDI (interbank deposits rate) as at September 30, 2019 (99.89% of CDI as at December 31, 2018).

8. SECURITIES

	Consolidated	
	09/30/2019	12/31/2018
National Treasury Bills (LTN)	14,226	547,202
Financial Bills (LF)	26,980	81,091
Financial Treasury Bills (LFT)	220,712	481,666
	261,918	1,109,959
Current	245,809	1,098,185
Noncurrent	16,109	11,774
	261,918	1,109,959

The average gross yield of securities is 97.39% of CDI as at September 30, 2019 (99.89% of CDI as at December 31, 2018).

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9. TRADE RECEIVABLES

a) Breakdown

	Consolidated	
	09/30/2019	12/31/2018
Trade receivables		
Higher education (i)	4,792,720	3,739,177
K-12 education (ii)	290,820	558,522
	5,083,540	4,297,699
Allowance for doubtful debts		
Higher education	(1,763,021)	(1,371,947)
K-12 education	(55,502)	(94,081)
	(1,818,523)	(1,466,028)
Trade receivables, net	3,265,017	2,831,671
Present value adjustment (iii)	(195,950)	(197,075)
	3,069,067	2,634,596
Current	2,336,243	1,940,313
Noncurrent (iv)	732,824	694,283
	3,069,067	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.
- (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 of 2.26% was used to calculate the amount discount in the period, based on the rates determined in January-September 2019 for the CDI and IPCA difference accumulated in the past twelve months. The reversal of the PVA recognized in the revenue month can be made in two ways: a) due to the natural evolution of the contracts in time, i.e., it is reversed on a monthly basis prorated to the month with positive impact on profit or loss; and b) when there is a student dropout, which, under the signed contract, allows us to charge in advance the outstanding amount and in this case the PVA balance is fully reversed.
- (iv) PEP and higher education tuition fee renegotiation receivables falling due after 365 days, net of present value adjustments.

Higher education 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.

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b) Receivables aging list

	Consolidated	
	09/30/2019	12/31/2018
Current/PEP	4,001,289	3,257,762
Past due		
Up to 30 days	204,658	196,351
31 to 60 days	105,326	152,668
61 to 90 days	60,908	9,729
91 to 180 days	305,244	131,870
181 to 365 days	406,115	549,319
Total past due	1,1082,251	1,039,937
Allowance for doubtful debts	(1,818,523)	(1,466,028)
Present value adjustment	(195,950)	(197,075)
	3,069,067	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.

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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.

Variations in the allowance for doubtful debts in the nine-month period ended September 30, 2019 are as follows:

	Consolidated	
	09/30/2019	12/31/2018
Opening balance	(1,466,028)	(994,730)
Addition arising from acquiree	(1,950)	(75,630)
Write-off against trade receivables	218,109	276,823
Recognition	(568,654)	(672,491)
Closing balance	(1,818,523)	(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	
	09/30/2019	12/31/2018
Finished goods	402,647	362,784
Work in process	94,701	75,849
Raw materials	74,535	59,310
Imports in transit	2,626	-
Appreciation	18,432	36,698
Allowance for inventory losses	(161,022)	(147,134)
	431,919	387,507

Variations in the allowance for inventory losses are as follows:

	Consolidated	
	09/30/2019	12/31/2018
Opening balance	147,134	4,205
Addition arising from acquiree	-	143,945
Increase in the year	24,859	27,930
Inventory losses	(10,971)	(28,946)
Closing balance	161,022	147,134

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11. RECOVERABLE TAXES

	Parent		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Income tax and social contribution (i)	5,492	3,913	246,664	211,990
PIS, COFINS and ISS (ii)	-	-	101,343	59,917
Social security tax (INSS)	-	-	32,545	28,955
Other recoverable taxes	-	-	32,906	20,136
	5,492	3,913	413,458	320,998
Current	5,492	3,913	407,011	315,169
Noncurrent	-	-	6,447	5,829
	5,492	3,913	413,458	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	
	09/30/2019	12/31/2018
UNIASSELVI	469,158	447,362
FAC	25,700	24,162
FAIR	14,382	13,511
NOVATEC	4,220	4,046
Colégio Anchieta	2,976	2,837
UNIRONDON	1,995	1,919
FAUSB	267	568
	518,697	494,405
Current	137,566	132,854
Noncurrent	381,131	361,551
	518,697	494,405

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

	Installment due dates	09/30/2019	
		Total	%
Total current assets	Up to Sep 2020	137,566	26.5
	Oct 2020 to Dec 2020	121,038	23.3
	2021	128,648	24.8
	2022	130,659	25.2
	2023	786	0.2
Total noncurrent assets		381,131	73.5
Total		518,697	100.0

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13. OTHER RECEIVABLES

	09/30/2019	Consolidated 12/31/2018
Prepaid expenses (i)	28,539	31,346
Receivables from former owners of acquirees (ii)	85,674	97,293
INSS on severance pay (iii)	30,859	30,859
Other (iv)	48,518	49,564
	204,286	209,062
Current	138,022	150,937
Noncurrent	66,264	58,125
	204,286	209,062

- (i) Consisting mainly of: R\$6,968 in property tax (IPTU) expenses, R\$9,489 in marketing expenses, R\$4,688 in software license costs, R\$5,085 relating to the capital gain in the sale of the João Dias (Somos) property, and R\$2,309 in smaller expenses.
- (ii) Consisting mainly of: 1) balance in subsidiary Anhanguera Educacional where a reimbursement asset was recognized due to the contractual rights of reimbursement by the former owners of Academia Paulista Anchieta Ltda. (APA) amounting to R\$28,102 relating to several civil, labor, and tax lawsuits, the main referring to service tax (ISS) in installments under the taxes in installments with incentives (PPI) of the City of São Paulo; 2) receivable balance of subsidiary Somos relating to contingencies for which sellers of the companies acquired are responsible, with a probable likelihood of loss. 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 that Somos is required to make amounting to R\$16,717, and 3) balance that the other subsidiaries in aggregate recognize in receivables arising mainly from taxes and burden of defeat fees paid guaranteed by the former owners, amounting to R\$40,855.
- (iii) Consisting mainly of recoverable social security contribution (INSS) originating from favorable court rulings against the levy of INSS on severance pay.
- (iv) Consisting mainly of: R\$2,477 in the remaining balance receivable from the sale of property located in São Paulo, R\$3,024 relating to the sale of a property located in Santo André, R\$5,179 relating to the sale of a property located in São Luiz, MA, and R\$17,787 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

	09/30/2019	Parent 12/31/2018
Editora e Distribuidora Educacional S.A. ("EDE")	6,019,446	5,948,898
Anhanguera Educacional Participações S.A. ("AESAPAR")	3,087,984	3,109,748
SB Sistemas (i)	-	(16)
Saber Serviços Educacionais Ltda.	94,645	-
Subtotal	9,202,075	9,058,630
Goodwill, including allocated Anhanguera goodwill	7,426,848	7,480,775
Total	16,628,923	16,539,405

- (i) On August 16, 2019, SB Sistemas was sold to Editora Ática S.A., one of the Group's subsidiaries.

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(b) Information on the direct subsidiaries

						09/30/2019
	Equity interest	Number of shares	Total assets	Total liabilities	Equity	Profit/loss for the period
EDE	100%	2,849,615,508	8,341,654	2,322,207	6,019,447	176,167
AESAPAR	74.46%	2,497,592,975	6,556,963	2,409,758	4,147,205	345,113
SABER	6.55%	1,809,130,655	8,583,142	7,138,182	1,444,960	(271,074)
		<u>7,156,339,138</u>	<u>23,481,759</u>	<u>11,870,147</u>	<u>11,611,612</u>	<u>250,206</u>

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

(c) Variations in investment in direct subsidiaries:

Investment	Parent					
	EDE	AESAPAR	SB Sistemas	Saber	Ágio	Total
Balance at 12/31/2018	5,948,898	3,109,748	(16)	-	7,480,775	16,539,405
Variation						
Amortization of allocated goodwill	-	-	-	-	(53,927)	(53,927)
Share of profit (loss) of investees	176,166	256,971	2	(16,491)	-	416,648
Capital increase (i)	178,600	-	100	-	-	178,700
Recognition	(109,220)	-	-	109,220	-	-
Dividend distribution (ii)	(140,557)	(192,079)	-	-	-	(332,636)
Adoption of IFRS 16 (iii)	(97,313)	(87,396)	-	(427)	-	(185,136)
RSU impacts (iv)	18,527	740	-	91	-	19,358
Other impacts	44,345	-	(86)	2,252	-	46,511
Balance at 09/30/2019	<u>6,019,446</u>	<u>3,087,984</u>	<u>-</u>	<u>94,645</u>	<u>7,426,848</u>	<u>16,628,923</u>

- (i) Capital increase made in subsidiary EDE, as decided in the Extraordinary Shareholders' Meeting held on April 30, 2019.
- (ii) Refers to the dividends received in April 2019 (R\$214,952), May 2019 (R\$90,532), and September 2019 (R\$27,152).
- (iii) Balances resulting from the adoption of IFRS beginning January 1, 2019, as per the total amount disclosed in note 2.2.1.
- (iv) The variation corresponds to the restricted stock unit (RSU) made in subsidiaries.

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(d) Information on the indirect subsidiaries

					09/30/2019	
	Equity interest	Number of shares	Total assets	Total liabilities	Equity	Profit/loss for the period
Direct subsidiaries - EDE						
Centro de Ensino Atenas Maranhense	99.99%	106,358,364	326,900	102,283	224,617	21,553
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	33,359	24,709	8,650	5,848
Centro de Ensino Superior de Parauapebas Ltda. (ii)	99.99%	4,675,159	15,330	8,787	6,543	4,172
Centro de Ensino Superior de Paragominas Ltda. (ii)	99.99%	974,207	8,226	5,482	2,744	1,469
Orme Serviços Educacionais	99.99%	181,014,196	115,167	51,129	64,037	(20,567)
Pax Editora e Distribuidora	99.99%	-	-	-	-	(952)
Projecta Educacional	99.99%	10,234,275	5,543	330	5,212	116
Anhanguera Educacional Participações S.A	25.54%	2,497,592,975	6,556,963	2,409,758	4,147,205	345,113
Pitágoras Sistema de Ensino Sociedade	99.99%	384,011,229	1,059,507	347,122	712,385	168,650
União de Ensino Unopar	99.99%	103,250,210	248,595	115,559	133,036	28,453
Unic Educacional	99.99%	205,146,858	560,543	66,601	493,942	91,791
Iuni Educacional - Unime Salvador	99.99%	15,916,973	112,051	53,720	58,331	6,267
União Metropolitana para o Desenvolvimento da Educação e Cultura	-	-	-	-	-	196
Saber Serviços Educacionais S.A.	99.99%	1,809,130,655	8,583,142	7,138,182	1,444,960	(271,074)
Direct subsidiaries - SABER						
Núcleo Brasileiro De Estudos Avançados Ltda	100%	1,158,980	2,134	2,813	(679)	(925)
Colegio Manaura Latu Sensu Ltda.	100%	8,601,283	128,032	205,839	(77,807)	58,221
Sanches Serviços De Educação Ltda	100%	805,889	1,005	1,362	(357)	(599)
Centro De Educação Do Norte Do Brasil	100%	301,001	8,801	13,624	(4,824)	2,051
Centro Educacional Leonardo Da Vinci S/S Ltda	100%	2,839,000	229,625	232,824	(3,199)	57,236
Da Vinci Serviços Educacionais Ltda	100%	1,870,000	7,284	5,908	1,376	15,255
Somos Educação S.A.	99.99%	862,887,241	517,141	(1,414,045)	1,931,187	(54,300)
AESAPAR indirect subsidiaries:						
Anhanguera Educacional Ltda.	100%	572,917	9,076	53	9,023	8,895
Clínica Médica Anhanguera Ltda.	100%	17,935,579	3,749	114	3,635	67
Anhanguera Educacional Fundo de Investimento em Direitos Creditórios	100%	2,909,300	2,967	3,169	(202)	(1,382)
Instituto Excelência Ltda.	100%	17,913,750	37,049	39,167	(2,118)	3,871
Edufor serviços educacionais Ltda. – ME	100%	4,427,000	3,296	1,730	1,566	1,094
Sociedade Piauiense de ensino superior Ltda.	100%	4,326,000	17,181	28,231	(11,050)	7,488
Fateci Cursos Técnicos S/S	100%	22,987,000	4,697	3,925	772	(1,745)
Clauder Ciarlini Filho S/S.	100%	1,420,000	26,620	20,624	5,996	8,787

(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.

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15. PROPERTY, PLANT AND EQUIPMENT

								Consolidado
	IT equipment	Furniture, equipment and fixtures	Library	Buildings and improvements	PP&E in progress	Land	Right of use (IFRS-16)	Total
Balances as at December 31, 2018	129,214	439,935	144,050	1,566,915	97,834	107,695	-	2,485,643
Restatement effects (note 2.1)	-	8,885	-	-	-	-	-	8,885
Balances as at December 31, 2018 (restated)	129,214	448,820	144,050	1,566,915	97,834	107,695	-	2,494,528
IFRS 16 opening balance (i)	-	-	-	-	-	-	2,976,633	2,976,633
Balances as at January 1, 2019	129,214	448,820	144,050	1,566,915	97,834	107,695	2,976,633	5,471,161
Additions	27,864	60,807	10,531	35,769	110,315	-	172,750	418,035
Addition due to business combination	286	2,447	591	154	-	-	-	3,479
Write-offs	(4,173)	(8,988)	(1,068)	(103,839)	(554)	(17,504)	-	(136,127)
Depreciation	(37,944)	(48,754)	(20,482)	(63,513)	-	-	(225,124)	(395,816)
Transfers	-	-	-	28,384	(81,819)	33,100	20,335	(0)
Balances as at September 30, 2019	115,246	454,332	133,622	1,463,870	125,776	123,291	2,944,594	5,360,731
Average annual depreciation rate	24%	9%	11%	4%	-	-	6%	

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

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16. INTANGIBLE ASSETS

						Consolidated
	Software	Content production	Operation license	Goodwill and allocated intangibles	Other intangible assets	Total
Balances as at December 31, 2018	556,241	184,182	11,969	19,032,397	126,321	19,911,110
Restatement effects (Note 2.1)	-	-	-	1,045,755	-	1,045,755
Balances as at December 31, 2018 (restated)	556,241	184,182	11,969	20,078,152	126,321	20,956,865
Additions	146,087	58,823	5,292	68,464	3,125	281,791
Write-offs	(149)	(4)	(1,632)	-	-	(1,785)
Variation for combinations (i)	-	-	-	(478,086)	-	(478,086)
Amortization	(104,698)	(87,109)	(4,074)	(282,916)	(18,731)	(497,526)
Balances as at September 30, 2019	597,481	155,893	11,556	19,385,615	110,715	20,261,260
Average annual amortization rate	20%	36%	33%	5%	33%	-

- (i) Amount arising from the revision of goodwill on the acquisition of Somos Educação S.A, consisting of: (R\$508,880) arising from liabilities assumed in the business combination, as described in note 23; and R\$30,500 that was allocated in the other line items of the opening balance sheet, as well as R\$294 arising from the acquisition of Lato Sensu.

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

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

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

	Consolidated	
	09/30/2019	12/31/2018
Goodwill (i)	14,376,547	14,828,266 (Restated Note 2.1)
Trademark (ii)	3,058,338	3,168,399
Operation license and center partner chain (iii)	688,974	667,966
Customer portfolio (iv)	1,259,488	1,413,504
Non-compete agreement (iv)	2,268	17
	19,385,615	20,078,152

- (ii) 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.
- (iii) Intangible asset with useful life estimated between 19 and 30 years.
- (iv) 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.
- (v) Intangible asset with useful life estimated between 3 and 14 years.

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17. BORROWINGS, FINANCING AND DEBENTURES

(a) Breakdown of debentures, borrowings and financing

	Interest	Issuance	Maturity	Consolidated	
				09/30/2019	12/31/2018
2 nd issue, 3 rd series EDE debentures	100% CDI + 1.70% p.a.	02/26/2015	12/10/2019	21,762	42,687
1 st issue, single series KROTON debentures	100% CDI + 0.65% p.a.	04/15/2019	04/15/2024	821,387	-
1 st issue, 1 st series SABER debentures	100% CDI + 0.75% p.a.	08/15/2018	08/15/2021	1,135,425	1,154,212
1 st issue, 2 nd series SABER debentures	100% CDI + 1.00% p.a.	08/15/2018	08/15/2023	4,284,357	4,359,991
1 st issue, 3 rd series SABER debentures	IPCA + 6.72% p.a.	08/15/2018	08/15/2025	110,076	108,641
2 nd issue, 1 st and 2 nd series SABER SOMOS debentures	100% CDI + 0.90% p.a. and 100% CDI + 1.70% p.a.	08/15/2018	08/15/2022	501,985	817,335
3 rd issue SABER SOMOS debentures	100% CDI + 1.15% p.a.	03/15/2018	09/15/2021	799,694	813,237
4 th issue, single series SABER SCIPIONE debentures	100% CDI + 1.00% p.a.	10/25/2017	10/25/2020	114,467	108,300
1 st issue SARAIVA SOMOS debentures	100% CDI + 1.00% p.a.	08/27/2018	08/15/2021	221,061	224,103
Borrowings				812	55,116
				8,011,026	7,683,622
Borrowings and financing				531	4,671
Debentures				392,774	522,846
Current liabilities				393,305	527,517
Borrowings and financing				281	50,445
Debentures				7,617,440	7,105,660
Noncurrent liabilities				7,617,721	7,156,105
				8,011,026	7,683,622

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

								Consolidado
Empresa	Emissão	Série	Quantidade	Valor unitário	Valor emissão	Pagamento principal	Pagamento juros	
EDE	2 ^a	3 ^a	8.500	10	85.000	Semestral	Semestral (Jun e Dez)	
KROTON	1 ^a	Única	80.000	10	800.000	No vencimento	Semestral (Abr e Out)	
SABER	1 ^a	1 ^a	112.966	10	1.129.660	Anual	Semestral (Fev e Ago)	
SABER	1 ^a	2 ^a	426.434	10	4.264.340	Anual	Semestral (Fev e Ago)	
SABER	1 ^a	3 ^a	10.600	10	106.000	Anual	Semestral (Fev e Ago)	
SABER SOMOS	2 ^a	1 ^a	600.000	1	600.000	Anual	Semestral (Fev e Ago)	
SABER SOMOS	2 ^a	2 ^a	200.000	1	200.000	Anual	Semestral (Fev e Ago)	
SABER SOMOS	3 ^a	Única	800.000	1	800.000	No vencimento	Semestral (Mar e Set)	
SABER SCIPIONE	4 ^a	Única	100.000	1	100.000	No vencimento	No vencimento	
SARAIVA SOMOS	1 ^a	Única	2.200	100	220.000	No vencimento	Semestral (Fev e Ago)	

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(b) Variations in debentures, borrowings and financing

	09/30/2019	Consolidated 12/31/2018
Opening balance	7,683,622	303,881
Addition due to business combination	-	2,150,639
Increase – principal (i)	800,000	5,294,921
Increase – issue costs	(2,339)	(35,596)
Reclassification of finance leases	(33,614)	-
Transfer of the IFRS adoption balance	(20,335)	-
Accrued interest	430,274	214,706
Cost allocation	8,469	3,984
Interest payment	(533,443)	(24,923)
Principal repayment	(321,608)	(223,990)
Closing balance	8,011,026	7,683,622

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

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

The 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.

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

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

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

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

	Maturity	Consolidated	
		Total	09/30/2019
			%
	Up to Sep 2020	393,305	4.9
Total current liabilities		393,305	4.9
	Oct 2020 to Dec 2020	112,685	1.4
	2021	2,242,942	28.0
	2022	2,227,322	27.8
	2023	2,928,818	36.6
	2025	105,954	1.3
Total noncurrent liabilities		7,617,721	95.1
		8,011,026	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 September 30, 2019, the balance of trade payables - purchaser’s risk was R\$307,258 (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 0.60% 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

	Consolidated
	09/30/2019
Balances as at December 31, 2018	-
IFRS 16 opening balance	3,259,634
Balances as at January 1, 2019	3,259,634
Additions	160,364
Reclassification of finance leases	20,335
Present value adjustment (i)	227,059
Principal repayment	(384,202)
Closing balance	3,283,190
Current	209,525
Noncurrent	3,073,665
	3,283,190

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

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

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As permitted, for short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will elect to recognize the lease expenses on a straight-line basis in the statements of profit or loss, 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 September 30, 2019 were as follows:

	Consolidated
	09/30/2019
Fixed payments	384,202
Variable payments	8,363
Payments related to short-term and low-value contracts	21,275
Total paid	413,839

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

20. PAYROLL AND RELATED TAXES

	Parent		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Payroll payable	-	-	117,850	94,686
INSS payable	-	-	49,200	61,819
Severance pay fund (FGTS) payable	-	-	9,961	18,363
Withholding income tax (IRRF) payable	-	-	14,686	39,215
Accrued vacation pay and 13 th salary	-	-	219,056	109,254
Payroll taxes on accruals	-	-	44,895	17,991
Accrued profit sharing	-	2,970	69,253	141,193
Other	-	-	27,104	25,730
	-	2,970	552,005	508,251

21. PAYABLES - ACQUISITIONS

	Consolidated	
	09/30/2019	12/31/2018
Colégio Lato Sensu	53,493	66,096
Colégio Leonardo da Vinci Metropolitana	68,956	75,295
Metropolitana	37,255	-
Uniabc	29,428	28,657
Betim property	-	48,977
Colégio SANTI	19,524	18,539
ICF	14,379	13,482
Livraria Livro Fácil	10,811	10,594
Fateci	8,586	8,249
IECAC (Sigma Águas Claras) - SOMOS	8,141	13,406
Grupo Visão	7,523	10,942
Febac	5,864	7,082
Iesville Educar / Intesc	5,649	5,397
Other	13,523	19,081
Total	283,134	325,797
Current	106,330	132,440
Noncurrent	176,804	193,357
	283,134	325,797

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The table below shows the variations in the payables for acquisitions line item:

	09/30/2019	Consolidated 12/31/2018
Opening balance	325,797	122,786
Addition due to business combination	-	69,999
Addition (i)	60,294	4,911,900
Interest adjustment	14,347	10,778
Write-offs/nettings	-	(8,485)
Present value adjustment	(821)	(8,949)
Repayments	(116,484)	(4,772,232)
Closing balance	283,134	325,797

- (i) Balance basically consisting of the acquisition of Faculdade Metropolitana amounting to R\$60,000, as shown in note 3.1.

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

Due dates of payables for acquisitions:

	Maturity	09/30/2019 Total	%
Total current liabilities	Up to Sep 2020	106,330	37.6
		106,330	37.6
	Oct 2020 to Dec 2020	9,240	3.3
	2021	49,186	17.4
	2022	54,616	19.3
	2023	45,473	16.1
	2024 and thereafter	18,288	6.5
Total noncurrent liabilities		176,804	62.4
Total		283,134	100.0

	Parent		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Labor proceedings (22.1(i))	1,789	5,941	166,630	151,452
Tax proceedings (22.1(ii))	35,035	50,842	146,856	172,291
Civil proceedings (22.1(iii))	980	7,206	50,841	99,190
Total	37,805	63,989	364,327	422,933

(i) Labor proceedings

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

- (a) Three labor lawsuits claiming the recognition of an employment relationship of a preparatory course teacher and the payment of all related benefits (vacation pay + 1/3 bonus, 13th salary, FGTS), overtime, undue decrease of class hourly fee, nightshift premium, severance pay, fine provided for by Articles 477 and 467 of the Brazilian Labor Code (CLT), pain and suffering due to violation of rights and image, payment for replay of recorded classes in online sales, fine for early termination, indirect termination of employment contract, registration in work papers, and lawyers' fees, totaling R\$12,304;

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- (b) Class action filed by the ABC labor union, file in 2011, consisting of several claims relating to the compliance with the teachers collective labor agreement, such as: weekly paid rest difference on nightshift premium, five-year salary rises, hourly fee, and distance learning classes (EAD), teacher salary makeup (five-year salary rise, hourly fee, nightshift premium), entry-level teacher salary gap, meal ticket, fine for noncompliance with regulatory clause on entry-level teacher salary gap, and lawyers' fees, totaling R\$8,724;
- (c) Class action filed by the Rio Grande do Sul teachers' union, that involves several claims relating to teachers' orientation of graduation dissertations, amounting to R\$3,536; and
- (d) The Company is also a party to 1,368 labor lawsuits, with average individual amounts of R\$80, of which 357 lawsuits, totaling approximately R\$11,345, that refer to claims by outsourced workers hired by labor outsourcing companies, attributing joint and several liability to the Company. In general, the labor lawsuits contain sundry claims.

(ii) Tax lawsuits

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

- (a) Tax collection lawsuits filed by the City of São Paulo charging 2007-2011 Service Tax (ISSQN), for which the former sponsors of Academia Paulista Anchieta, a company acquired by Anhanguera in September 2011, are fully liable, amounting to R\$103,783. 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\$1,542, for which the former sponsors are fully liable. The Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome; and
- (c) The Company is also a party to 49 tax lawsuits, with individual amounts lower than the claims described above that on average amount to R\$1,461. The claims involve different types of tax credits.

(iii) Civil proceedings

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

- (a) 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. The lawsuit claims that AESA has not complied with the contractual obligations, including the obligation to encrypt the satellite signal of the courses, amounting to R\$8,406; and

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- (b) The Company is also a party to 4,800 civil lawsuits, with individual amounts lower than the claims described above that on average amount to R\$10, including 67 cases for which the former sponsors are fully or partially liable. The claims involve mostly consumer complaints.

The table below shows the variations in contingencies in the period ended September 30, 2019, parent and consolidated.

	Tax	Civil	Labor	Parent Total
Balance as at 12/31/2018	50,842	7,206	5,941	63,989
Reallocations between types	-	(6)	6	-
Additions (i)	-	-	199	199
Reversals (i)	(8,560)	(5,872)	(3,665)	(18,098)
Total impact on profit or loss	(8,560)	(5,878)	(3,460)	(17,899)
Payments	-	(1)	(182)	(183)
Total payments	-	(1)	(182)	(183)
Additions to (reversals of) former sponsor lawsuits	(7,247)	(347)	(509)	(8,103)
Balance as at 09/30/2019	35,035	980	1,789	37,805

- (i) The main reversals made in the period 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
Reallocations between types	(8,023)	(14,084)	22,107	-
Additions (i)	1,013	86,296	86,047	173,356
Inflation adjustment	1	793	2,077	2,872
Reversals	(18,648)	(23,829)	(49,146)	(91,623)
Total impact on profit or loss	(25,657)	49,176	61,085	84,604
Payments	(422)	(77,983)	(55,439)	(133,845)
Total payments	(422)	(77,983)	(55,439)	(133,845)
Additions to (reversals of) former sponsor lawsuits	644	(19,543)	9,533	(9,366)
Balance as at 09/30/2019	146,856	50,840	166,630	364,326

- (i) The additions made in the period are basically related to the following lawsuits:
- (a) Civil – Addition of 12,458 sundry civil lawsuits totaling R\$84,395, with immaterial individual amounts. The most significant amount added was approximately R\$900; and
 - (b) Labor – Addition of 1,651 sundry labor lawsuits totaling R\$85,126, with immaterial individual amounts. The most significant amount added was approximately R\$2,023;

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- (ii) The reversals made in 2019 refer to variations that had an impact on the Company's profit or loss, the main ones being:
- (a) Tax: 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\$16,141;
 - (b) Civil: the main reversals were: in subsidiary Anhanguera Educacional in São Gonçalo, RJ, R\$220 was reversed due to the partially favorable outcome in the lawsuit challenging the undue collection of administrative service fees; subsidiary Editora e Distribuidora Educacional S/A in Gurupi, TO reversed R\$206, and there were other sundry reversals by the Company totaling R\$23,265; and
 - (c) Labor: the main reversals were: in subsidiary Anhanguera Educacional Participações S/A in Belo Horizonte, MG, R\$1,450 was reversed due to the favorable outcome in a labor lawsuit where the claimants claimed the payment of severance pay, in subsidiary Anhanguera Educacional Participações S/A in Dourados, MS, R\$1,368 was reversed due to the favorable outcome in a labor lawsuit claiming the payment of a general salary gap, and there were other sundry reversals by the Company totaling R\$41,442.

21.1. Proceedings with a possible likelihood of loss

			Consolidated	
	09/30/2019	12/31/2018	Number at 09/30/2019	Number at 12/31/2018
Tax	588,198	487,346	182	188
Civil	208,572	384,549	14,564	15,504
Labor	107,784	93,743	1,155	1,169
Total	904,555	965,638	15,901	16,861

As at September 30, 2019, the Company and its parent companies were parties to 15,901 court/administrative proceedings classified by management with a possible likelihood of loss based on the opinion of its legal counsel, including 325 proceedings for which the former sponsors are fully or partially liable, the main ones being:

- (i) **Tax:**
- (a) Tax assessment notice issued by the Federal Revenue Service of Brazil against the Company after a tax audit for the nonpayment of taxes on the stock options granted by the Company in January 2014-October 2017, amounting to R\$131,311;
 - (b) Tax lawsuits filed by the Federal Government claiming the payment of a tax debt consisting of unpaid social security contributions registered as enforceable debt during the period when subsidiary IUNI was owned by its former sponsor and was entitled to tax immunity as a nonprofit philanthropic entity. The tax lawsuits covering this issue total R\$103,709. In the event of an unfavorable outcome, the former sponsor is partially liable for this contingency, up to approximately R\$67,000. Any sentence exceeding this amount will be paid by the Company; and
 - (c) Tax assessment notice issued by the Federal Revenue Service of Brazil against subsidiary Editora e Distribuidora Educacional (EDE) to collect social security contributions on the amount paid by the Company to eligible employees in calendar years 2013-2016. The assessed principal and charges (fine and arrears interest) total R\$71,408. The Company is liable for this tax assessment.

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(ii) Civil:

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

(iii) Labor:

- (a) Tax lawsuit claiming the recognition of the employment relationship of a preparatory course teacher and the payment of all related benefits (vacation pay + 1/3 bonus, 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; and
- (b) Tax lawsuit claiming the payment of overtime, nightshift premium, premium for holding two positions, compensation for pain and suffering, scholarships, and lawyers' fees. The Company is fully liable for this lawsuit, which totals R\$2,066.

21.2. Escrow deposits

	Consolidated	
	09/30/2019	12/31/2018
Tax	11,929	8,838
Civil	17,499	12,063
Labor	50,292	81,755
Total	79,719	102,656

22. 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, as at December 31, 2018, recognized in liabilities a provision amounting to R\$3,213,048 relating to potential noncompliance of past practices used by entities acquired by the Company with labor, civil, and tax laws and regulations during the period they were owned by the acquirees' sellers.

The Company has contractual guarantees provided by the acquirees' sellers in case it incurs any contingency that can be attributed to such sellers. Especially as regards the acquisition of Somos, there is an escrow account amounting to R\$624,566 (R\$450,000 as at December 31, 2018), 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.

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After the Company's legal counsel reviewed the risk of the contingencies, the Company reassessed the contingency identified at the time of the Somos acquisition, entailing a reduction of R\$669,864 due to: (a) the decrease of the penalty charged in the tax assessment notice issued by the Federal Revenue Service against subsidiary Somos Sistemas, and the legal counsel believes that the likelihood of the penalty exceeding 75% of the tax assessment should be regarded as remote; (b) reassessment of the reconstruction of subsidiary Livro Fácil's income; (c) reassessment of the amount initially determined regarding the initially identified labor contingency, reducing the initial amount. On the other hand, the Company also identified new potential labor contingencies due to the continual Company assessment, which increased by R\$160,984 due to these new identified contingencies.

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

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

	Tax	Civil	Labor	Consolidated 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
Adjustments for business combination	(625,195)	-	116,314	(508,880)
Reclassification between types	173,813	(227,394)	53,581	-
Addition	15,599	-	1,281	16,880
Inflation adjustment	15,261	364	1,038	16,664
Reversals	(72,433)	(6,446)	(101,962)	(180,840)
Balance as at 09/30/2019	1,447,318	193,527	916,028	2,556,873

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 to the nonpayment of ISSQN amounting to R\$33,951. The former sponsor is liable for this proceeding and the Company is covered by a sufficient contractual guarantee in the event of an unfavorable outcome;
- (b) Tax - tax assessment notice collecting IRPJ and CSLL, plus aggravated fine of 75% 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\$295,421, 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\$72,885, is still pending. The Company is liable for this proceeding;

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- (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 75% 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\$294,334 and other tax procedures that might be challenged that total R\$87,025.
- (f) 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\$357,386.
- (g) Civil - Based on the history and risk analyses, the Company recognized a potential obligation resulting from past events, contractual fines on the early contract terminations, particularly property lease contracts, which total R\$41,702, other sundry cases of noncompliance with civil laws and regulations totaling R\$77,249.

22.1. 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:

	Tax	Civil	Labor	Consolidated Total
Balance as at 12/31/2018	724,882	112,926	95,411	933,219
Addition	169,734	700	13,200	183,634
Addition due to business combination	15,599	-	1,281	16,880
Reversals	(4,773)	(20,016)	(12,852)	(37,640)
Balance as at 09/30/2019	905,443	93,610	97,040	1,096,093

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*.

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23. 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			
	01/07 to 09/30/2019	09/30/2019	01/07 to 09/30/2018	09/30/2018
Profit before income tax and social contribution for the year	14,422	385,373	342,769	1,273,808
Combined income tax and social contribution rate - %	34%	34%	34%	34%
IRPJ and CSLL at statutory tax rates	(4,903)	(131,027)	(116,541)	(433,095)
Share of profit (loss) of investees	10,550	141,660	120,535	429,055
Add-backs (deductions), net (i)	(13,822)	7,554	1,053	20,796
Deferred IRPJ and CSLL not recognized on subsidiaries' loss for the year	13,967	-	-	-
Other changes in income tax and social contribution	173	-	6	20
Total income tax and social contribution	5,964	18,187	5,053	16,776
Current IRPJ and CSLL in profit or loss	(148)	(148)	(1,059)	(1,559)
Deferred IRPJ and CSLL in profit or loss	6,112	18,335	6,112	18,335
	5,964	18,187	5,053	16,776

	Consolidated			
	01/07 to 09/30/2019	09/30/2019	01/07 to 09/30/2018	09/30/2018
Profit before income tax and social contribution for the year	(62,934)	252,492	363,792	1,313,994
Combined income tax and social contribution rate - %	34%	34%	34%	34%
IRPJ and CSLL at statutory tax rates	21,398	(85,847)	(123,689)	(446,758)
Share of profit (loss) of investees	195	(7)	-	-
Tax incentive in subsidiaries subject to ProUni benefit	44,641	204,322	80,130	361,182
Add-backs (deductions), net (i)	3,648	46,850	15,531	31,004
Difference of tax rate relating to subsidiary's deemed income	-	-	(153)	3
Deferred IRPJ and CSLL not recognized on subsidiaries' loss for the year	(5,651)	(24,218)	(1,236)	(5,646)
Other changes in income tax and social contribution	19,427	17,117	13,447	36,805
Total income tax and social contribution	83,657	158,218	(15,970)	(23,410)
Current IRPJ and CSLL in profit or loss	(16,215)	(64,604)	(24,947)	(67,033)
Deferred IRPJ and CSLL in profit or loss	99,872	222,822	8,977	43,623
	83,657	158,218	(15,970)	(23,410)

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

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b) Deferred income tax and social contribution

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

	Parent			
	12/31/2018	IFRS 16 adjustments	Impact on profit or loss	09/30/2019
<u>In liabilities</u>				
Goodwill on business combinations	(669,873)	-	18,335	(651,538)
Noncurrent liabilities	(669,873)	-	18,335	(651,538)
				Consolidated
	12/31/2018	IFRS 16 adjustments	Impact on profit or loss	09/30/2019
	(Restated Note 2.1)			
<u>Income tax/social contribution:</u>				
Tax loss carryforwards	363,380	-	124,925	488,305
<u>Temporary differences in taxable income</u>				
Allowance for doubtful debts	398,296	-	79,409	477,705
Present value adjustment	69,232	-	(262)	68,970
Provision for contingencies	83,541	-	(8,893)	74,648
Depreciation and borrowing costs	(240)	-	7,268	7,029
Nondeductible provisions	69,200	-	(32,636)	36,564
Profit sharing	29,934	-	234	30,168
Amortization of intangible assets	-	-	-	-
Stock option plan	7,462	-	7,603	15,066
Leases	-	93,280	13,187	106,466
Capital gain	(69,693)	-	-	(69,693)
Goodwill on business combinations	(1,094,807)	-	20,166	(1,074,641)
Other adjustments	12,219	509	11,820	24,548
<u>Noncurrent liabilities</u>	(131,476)	93,789	222,822	185,134
Noncurrent assets	748,501			785,970
(-) Noncurrent liabilities	(879,977)			(600,836)
Total	(131,476)			185,134

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.

The table below shows the expected realization of deferred income tax and social contribution per year:

	Consolidated	
Realization year	Total	%
up to Sep 2020	54,858	7.0
Oct 2020-Dec 2020	124,786	15.9
2021	154,778	19.7
2022	128,764	16.4
2023 and thereafter	322,785	41.1
	731,112	93.0
	785,970	100.0

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c) Tax incentives

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

The amount of the tax benefits under the ProUni determined for the period ended September 30, 2019, including PIS and COFINS, is R\$332,715 (R\$508,095 for the period ended September 30, 2018).

24. EQUITY

a) Issued capital

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

	Number of shares	
	09/30/2019	12/31/2018
Total ex-treasury shares	1,634,678,060	1,629,605,489
Total treasury shares	9,570,146	14,642,717
Total shares	1,644,248,206	1,644,248,206

The table below shows the variations on the number of treasury shares:

	Number of shares	
	09/30/2019	12/31/2018
Prior balance	14,642,717	169,265
Buyback of treasury shares	-	17,212,500
Shares sold	(5,072,571)	(2,739,048)
Closing balance	9,570,146	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 September 30, 2019 is R\$6,388,281 (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.

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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

In 2019, the Company approved the payment of dividends to its shareholders amounting to R\$145,606 and on November 13, 2019 the Board of Directors approved the interim dividends for the second of quarter of 2019 amounting to R\$7,747.

25. STOCK OPTION PLAN

25.1. 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.

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.

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

PLANS	Number of restricted shares			09/30/2019	Average strike price	
	12/31/2018	Restricted shares granted	Restricted shares settled			Restricted shares cancelled
2015 KROT_Plan - Migrated	1,504,272	-	(328,034)	(262,789)	913,449	R\$10.90
2018 KROT_Plan - New	7,340,286	2,136,000	-	(197,915)	9,278,371	-
TOTAL	8,844,558	2,136,000	(328,034)	(460,704)	10,191,820	

The Company recognized the expenses incurred on the Restricted Stock Option Plan grants amounting to R\$20,340 for the period ended September 30, 2019 (R\$20,473 for the period ended September 30, 2018) as a contra entry to capital reserves in equity. The Company also recognized as personnel expenses charges amounting to R\$6,959 for the period ended September 30, 2019 as a contra entry to the provisions for charges, in liabilities.

25.2. Stock option plans

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

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

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

Plan	Grant date	Strike price	Vesting period	Active options granted
2009 KROT_Plan	02/08/2010-05/01/2013	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	85,655
2010 AEDU_Plan	07/03/2014	R\$11.20	3 allotments with 36-, 48- and 60-month vesting periods	233,891
2013 AEDU_Plan	06/18/2013-03/07/2014	R\$9.94 to R\$11.20	3 allotments with 36-, 48- and 60-month vesting periods	1,524,666
2013 KROT_Plan	11/26/2013-02/06/2015	R\$5.67 to R\$13.01	4 allotments with 6-, 18-, 30-, and 42-month vesting periods	6,970,000
2015 KROT_Plan	10/05/2015-02/01/2016	R\$8.42 to R\$9.65	4 allotments with 6-, 18-, 30-, and 42-month vesting periods	19,045,425
				27,859,637

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.

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

PLANS	Number of stock options			Options cancelled/ forfeited	09/30/2019	Average strike price
	12/31/2018	Options granted	Options exercised (i)			
2010 AEDU_Plan	85,655	-	-	-	85,655	R\$6.20
2013 AEDU_Plan	4,375,567	-	(3,527,228)	(614,448)	233,891	R\$9.65
2009 KROT_Plan	2,314,666	-	(790,000)	-	1,524,666	R\$2.92
2013 KROT_Plan	7,050,000	-	(40,000)	(40,000)	6,970,000	R\$7.18
2015 KROT_Plan	19,545,294	-	(499,869)	-	19,045,425	R\$8.93
TOTAL	33,371,182	-	(4,857,097)	(654,448)	27,859,637	

- (i) In the period ended September 30, 2019, 4,857,097 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).

25.3. Fair value calculation and expense in profit or loss

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

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

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

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

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

	Programs				
	Kroton			AEDU	
	2009 Plan	2013 Plan	2015 Plan	2010 Plan	2012 Plan
Stock price	R\$2.31 to R\$3.83	R\$9.48 to R\$15.84	R\$8.81 to R\$10.55	R\$3.73	R\$3.73
Risk-free rate	6.0% to 9.0%	7.0% to 12.6%	15.3% to 16.5%	12.60%	12.60%
Expected annual volatility	31.4 % to 35.0%	24.7% to 37.3%	38.4% to 40.8%	31.10%	31.10%
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%	3.50%	2.60%	2.60%
Plan duration in years	6 to 10	5 to 8	5 to 8	6	5
Stock option's fair value on grant date (R\$/share)	R\$0.75 to R\$1.08	R\$2.44 to R\$5.64	R\$3.27 to R\$5.38	R\$2.73	R\$5.55

In the period ended September 30, 2019, R\$2,107 was recognized as stock option fair value expenses (R\$20,473 recognized as at September 30, 2018).

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26. RELATED PARTIES

26.1. Related-party transactions

The intragroup balances and transactions are as follows:

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

Subsidiary	Agreement end date	Monthly amount (R\$)	Adjustment index
Unic Educacional	March 2020	77	IPCA
Unime LF	March 2020	123	IPCA
luni	March 2020	217	IPCA

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

Subsidiary	Agreement end date	Monthly amount (R\$)	Adjustment index
EDE	January 2020	1,298	IPCA

- (iii) Subsidiary AESAPAR uses property leased from HK Campinas Empreendimentos Imobiliários Ltda. (company controlled by a sibling of a member of the Company's Board of Directors). The agreement is effective until December 2024 and has a fixed monthly amount of R\$359. This amount is indexed to the IPCA.
- (iv) Subsidiary PITÁGORAS uses a property leased from Sistema Pitágoras de Ensino Sociedade Ltda. (company controlled by member of the Company's Board of Directors). The agreement is effective until August 2023 and has a fixed monthly amount of R\$205. This amount is indexed to the IPCA.
- (v) An onerous donation agreement was entered into by Kroton Educacional S.A. with Fundação Pitágoras to ensure the Foundation meets its corporate and institution purposes. There was a disbursement of R\$1,202 relating to this agreement in 2019.
- (vi) The Company's balance receivable from related parties refers mainly to private debentures receivable from subsidiary EDE amounting to R\$29,133 in the short term and R\$800,218 in the long term, with maturities and bearing interest in line with the transactions disclosed in note 17(b). The Company discloses finance income for the period ended September 30, 2019 totaling R\$23,314 earned in this transaction.

26.2. 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.

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KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

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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 in the period ended September 30, 2019 is as follows:

	<u>09/30/2019</u>	<u>09/30/2018</u>
Payroll	9,794	9,448
Benefits	312	390
Charges	2,015	1,979
Variable compensation (i)	6,808	7,787
Restricted stock option plan and restricted stock	11,729	6,540
	<u>30,658</u>	<u>26,144</u>

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

27. NET OPERATING REVENUE

	Consolidated			
	<u>01/07 to 09/30/2019</u>	<u>09/30/2019</u>	<u>01/07 to 09/30/2018</u>	<u>09/30/2018</u>
<u>In-class higher education</u>				
Gross revenue	1,090,201	3,701,978	1,291,755	4,242,185
Deductions from gross revenue				
Taxes	(28,282)	(91,636)	(29,950)	(109,882)
ProUni	(174,175)	(553,012)	(201,880)	(592,229)
Discounts	(33,748)	(146,086)	(83,902)	(312,702)
In-class education net revenue	<u>853,996</u>	<u>2,911,244</u>	<u>976,023</u>	<u>3,227,372</u>
<u>EAD higher education</u>				
Gross revenue	418,275	1,243,716	340,392	1,079,728
Deductions from gross revenue				
Taxes	(7,858)	(25,240)	(6,962)	(21,751)
ProUni	(67,275)	(197,140)	(67,743)	(198,092)
Discounts	(25,291)	(78,562)	(23,557)	(65,306)
EAD net revenue	<u>317,851</u>	<u>942,774</u>	<u>242,130</u>	<u>794,579</u>
Higher education net revenue	<u>1,171,847</u>	<u>3,854,018</u>	<u>1,218,153</u>	<u>4,021,951</u>
<u>K-12 education</u>				
Gross sales revenue	417,644	1,490,119	35,811	140,029
Deductions from gross revenue				
Taxes	(17,382)	(52,887)	(2,001)	(5,186)
Returns and discounts	(56,353)	(194,032)	(1,865)	(17,098)
K-12 education net revenue	<u>343,909</u>	<u>1,243,200</u>	<u>31,945</u>	<u>117,745</u>
<u>Total</u>				
Gross revenue	1,926,120	6,435,816	1,667,958	5,461,942
Deductions from gross revenue				
Taxes	(53,522)	(169,763)	(38,913)	(136,819)
ProUni	(241,450)	(750,152)	(269,623)	(790,321)
Discounts	(59,039)	(224,648)	(107,459)	(378,008)
Returns	(56,353)	(194,032)	(1,865)	(17,098)
Total net revenue	<u>1,515,756</u>	<u>5,097,218</u>	<u>1,250,098</u>	<u>4,139,696</u>

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28. COSTS AND EXPENSES BY NATURE

	Parent			
	01/07 to 09/30/2019	09/30/2019	01/07 to 09/30/2018	09/30/2018
Payroll and related taxes	(88)	1,378	(13,547)	20,290
Depreciation - IFRS 16	(806)	(2,360)	(765)	(2,291)
Publicity and advertising	(2,283)	(2,501)	(15)	(233)
Amortization of allocated goodwill	(15,700)	(53,927)	(26,334)	(53,927)
Utilities, cleaning, and security	71	(294)	(81)	(231)
Other income (expenses), net	3,061	11,257	9,789	1,411
Consulting and advisory	(572)	(1,448)	(730)	(1,175)
Fees and contributions	(1)	(17)	(3)	(6)
Contingencies	345	17,899	19,423	43,712
	(15,973)	(30,013)	(12,263)	7,550
Cost of sales and services	-	-	-	-
Selling expenses	-	-	-	-
General and administrative expenses	(15,973)	(30,013)	(12,263)	7,550
Other operating income (expenses), net	-	-	-	-
	(15,973)	(30,013)	(12,263)	7,550

	Consolidated			
	01/07 to 09/30/2019	09/30/2019	01/07 to 09/30/2018	09/30/2018
Payroll and related taxes	(576,791)	(1,684,473)	(445,128)	(1,282,402)
Allowance for doubtful debts	(170,301)	(568,654)	(155,068)	(498,669)
Depreciation and amortization	(129,215)	(385,302)	(93,812)	(262,879)
Publicity and advertising	(121,376)	(345,078)	(73,721)	(275,479)
Depreciation - IFRS 16	(73,229)	(225,124)	-	-
Amortization of allocated goodwill	(101,061)	(282,916)	(19,060)	(55,308)
Cost of sales	(69,484)	(205,685)	9,607	(5,873)
Utilities, cleaning, and security	(68,410)	(206,291)	(49,534)	(153,256)
Other income (expenses), net	(9,168)	(152,599)	(40,950)	(105,283)
Consulting and advisory	(35,092)	(118,354)	(24,790)	(100,396)
Copyrights	(17,009)	(65,383)	5,609	6,124
Amortization of publishing cost	(11,937)	(54,456)	-	-
Rental and common area maintenance fees (i)	(16,223)	(46,531)	(107,917)	(315,365)
Travel	(15,447)	(40,184)	(10,338)	(30,364)
Fees and contributions	(13,976)	(35,251)	(8,369)	(25,249)
Amortization of inventory appreciation	(13,470)	(18,267)	-	-
Outside services	(2,291)	(6,977)	(2,688)	(7,586)
Contingencies	37,758	98,059	36,825	87,663
	(1,406,722)	(4,343,466)	(979,334)	(3,024,322)
Cost of sales and services	(676,587)	(1,997,204)	(555,756)	(1,638,684)
Selling expenses	(341,671)	(1,050,535)	(244,956)	(823,080)
General and administrative expenses	(403,145)	(1,293,971)	(178,426)	(555,835)
Other operating income (expenses), net	14,681	(1,756)	(196)	(6,723)
	(1,406,722)	(4,343,466)	(979,334)	(3,024,322)

(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.

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29. FINANCE INCOME (COSTS)

			Parent	
	01/07 to		01/07 to	
	09/30/2019	09/30/2019	09/30/2018	09/30/2018
Finance Income				
Income from short-term investments and securities	519	788	596	4,970
Other (i)	14,294	23,315	-	-
	14,813	24,103	596	4,970
Finance costs				
Interest and costs on debentures (i)	(14,025)	(23,727)	-	-
Banking and collection fees	(6)	(18)	(3)	(7)
Adjustment to contingencies	-	-	(27)	(512)
Other	(1,415)	(1,620)	(53)	(124)
	(15,446)	(25,365)	(83)	(643)
Finance income (costs)	(633)	(1,262)	513	4,327

(i) Refers to the income from internal debentures transferred to subsidiary EDE.

			Consolidated	
	01/07 to		01/07 to	
	09/30/2019	09/30/2019	09/30/2018	09/30/2018
Finance Income				
Interest on monthly tuitions	72,732	167,425	75,573	172,018
Income from short-term investments and securities	19,863	69,771	82,622	100,996
Discounts obtained	84	973	447	537
Sublease interest	215	647	-	-
Interest receivable	913	16,062	-	-
Other	3,458	21,458	5,012	15,302
	97,265	276,336	163,654	311,122
Finance costs				
Interest and costs on debentures (i)	(140,007)	(430,274)	(55,976)	(62,105)
Adjustment to payables for acquisitions of subsidiaries	(820)	(11,264)	(3,520)	(7,929)
Banking and collection fees	(5,604)	(17,297)	(4,691)	(16,940)
Interest and fines on late payments	412	(3,567)	(626)	(1,672)
Interest and fines on late payment of taxes	(2,523)	(19,874)	-	(1,666)
Adjustment to contingencies	(19,536)	(19,536)	(528)	(4,190)
Lease interest	(75,847)	(227,059)	(510)	-
Other	(25,881)	(48,704)	(4,780)	(18,004)
	(269,806)	(777,575)	(70,631)	(112,506)
Finance income (costs)	(172,541)	(501,239)	93,023	198,616

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

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31. 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.

	<u>09/30/2019</u>	<u>09/30/2018</u>
Profit attributable to Company owners	403,560	1,290,580
Weighted average number of outstanding common shares (in numbers)	1,631,925	1,629,518
Basic earnings per common share	<u>0.25</u>	<u>0.79</u>

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 September 30, 2019, 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. The table below shows the calculation of the dilution:

	<u>09/30/2019</u>	<u>09/30/2018</u>
Profit attributable to Company owners	403,560	1,290,580
Weighted average number of outstanding common shares (in numbers)	1,631,925	1,629,518
Potential increase in common shares	28,245	28,192
Diluted earnings per common share	<u>0.24</u>	<u>0.78</u>

32. SUPPLEMENTAL CASH FLOW INFORMATION

The statements of cash flows are prepared using the indirect method and are presented in accordance with accounting pronouncement CPC 03 (R2)/IAS 7 *Statement of Cash Flows*. The Group acquired fixed and intangible assets and part of these assets did not affect cash because they are linked to the payment of trade payables in installments or because they arise from the negotiation in the sale of its subsidiaries' properties. The table below shows these noncash acquisitions:

	<u>09/30/2019</u>
Total property, plant and equipment increases in the period (note 15)	418,035
Total intangible asset increases in the period (note 16)	281,791
	<u>699,826</u>
Noncash variations in property, plant and equipment and intangible asset increases:	
Variation in the trade payables	(135,662)
Total noncash effects	<u>564,164</u>
Statements of cash flows:	
Property, plant and equipment increases	215,400
Intangible asset increases	280,300
Acquisition of subsidiaries	68,464
Total	<u>564,164</u>
Other noncash transactions:	
First-time adoption of CPC R2 (16)/IFRS 16 <i>Leases</i> (note 2.2)	2,976,634

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33. EVENTS AFTER THE REPORTING PERIOD

33.1 Results of sales under the 2020 National Textbook Program (“PNLD”)

Pursuant to CVM Instruction 358/2002, as amended, on October 23, 2019, the Company notified to its shareholders, investors, and market in general the results of its sales on the 2020 National Textbook Program (“PNLD”).

As a result of the completion of the negotiations between Saber, B2C/Gov (business to consumer/government) contact between Kroton and the National Education Development Fund (“FNDE”), the total sales volume of indirect subsidiaries Editoras Ática, Scipione and Saraiva Educação under the PNLD 2020 was 52.0 million books, of which 20.8 million refer to the adoption of new textbooks for the K-12 Education II segment and 31.2 million refer to replacement of prior years’ textbooks (for the K-12 Education I and High School segments).

The billed revenue from these sales will correspond to R\$408.0 million, of which R\$175.6 million refer to the adoption of new books for the K-12 Education II segment and R\$232.4 million refer to replacement of prior years’ textbooks.

33.2 New Corporate Governance structure

In order to monitor the new business structure presented to the market on October 7, 2019, Management proposed a new Corporate Governance structure, which will be submitted for approval to the shareholders’ meeting scheduled to held on December 9, 2019. With regard to the Board of Directors, the proposal includes the appointment of three new directors, namely:

- Rodrigo Galindo, current Kroton CEO, who will take on a new management position to ensure a strong alignment between the Executive Committee and the Board of Directors;
- Juliana Rozenbaum, executive with vast experience in large company boards and strong expertise in strategy; and
- Thiago Piau, current CEO of one of the largest digital company in Brazil, who will contribute with an important vision about technology and innovation.

In addition to these appointments, Management proposes the reelection of directors Evando José Neiva, Luiz Antonio de Moraes Carvalho, Nicolau Ferreira Chacur, and Walfrido Silvino dos Mares Guia Neto. As a result, the new Board of Directors will have seven members, four of which are independent members pursuant to the relevant law (or 57% of total members), increasing the corporate governance standards in line with the best market practices.

The new governance allows the election of new Board of Directors members, adding new skills necessary for the new moment of the organization.

Finally, four new Advisory Committees—“Audit & Risk”, “People & Governance”, “Financial & M&A”, and “Strategy & Innovation”, which will support Board of Directors decisions during this term of office, will be established.

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33.3 Proposal for changing the corporate name and amendment to the bylaws

On November 7, 2019, Management proposed to the shareholders (i) changing the Company's corporate name to *Cogna Educação S.A.*, with the resulting change of its Bylaws; and (ii) amending the Company's Bylaws to (a) adjust the provisions related to Company's management and Supervisory Council and the arbitration commitment clause to the new rules of the *Novo Mercado* Listing Regulation of B3 – Brasil, Bolsa, Balcão currently in effect, as amended on January 2, 2018; (b) specify in the corporate business description the provision of services using platforms; (c) eliminate the need for the shareholders to elect the chairman of the shareholders' meeting when the shareholders' meeting's chairman or vice chairman are absent; (d) allow the Board of Directors to determine the levels for the preapproval of certain matters and include the approval of the Investment Plan as part of its duties; (e) allow the Board of Directors to make decisions using electronic media; (f) change the top number of Company officers; (g) update and ratify the Company's capital amount and number of shares, as decided in the Board of Directors' meetings held on July 31, 2017, August 31, 2017, September 26, 2017, October 31, 2017, November 30, 2017, December 28, 2017, January 31, 2018, March 16, 2018, April 27, 2018, and March 28, 2019; (h) eliminate the use of the facsimile to send distance votes by Board of Directors' members; (i) exclude the temporary provisions and references thereto, (ii) due to this change, as from the October 11, 2019 trading session, the ticker symbol of the Company's common shares is "COGN3" on B3 S.A. – Brasil, Bolsa, Balcão, with new trading name "COGNA ON", and ticker symbol "COGNY" on OTCQX.

* * * * *

Belo Horizonte, November 13, 2019 – Kroton Educacional S.A. (B3: COGN3; OTCQX: COGNY), “Cogna” or the “Company,” announces today its results for the third quarter of 2019 (3Q19). 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

At our last Investor Day, in early October, we had the opportunity to present the new business structure, with the launch of new brands and the creation of a new concept for managing our activities. **COGNA** was born positioned as a collection of companies (holding company) operating in different verticals within the education industry, which encompasses an addressable market worth R\$174 billion. The move represents yet another step on our digital transformation journey, that has been supporting the development of new business models within the operation, while creating opportunities that transcend our original core business. The new positioning also seeks to lay the foundation for a new growth phase by combining different strategies that give the various companies greater autonomy and flexibility, while maintaining the efficiency that is in our corporate DNA. This marks the beginning of a new era, with growth opportunities conserving our purpose of transforming people’s lives through quality education.

To provide a better understanding of this new positioning, we will comment on the four business verticals:

In the B2C Postsecondary Education vertical, **KROTON** is advancing in the process of transitioning the student base from a profile composed mostly of students with FIES financing to one based on students paying out of pocket. The Company, which at one point had 60% of its On-Campus students supported by FIES financing, is on track to end 2019 with 14% and 2020 with around 6% of FIES students in its base. Until this student base is consolidated, the Company’s results should remain pressured, but the outlook for the future is already promising. The latest student-recruiting processes were very healthy, showing that, with the pressure from the reduction in FIES students having subsided, KROTON should resume revenue growth by 2021. Reinforcing this thesis, the recently announced enrollment figures for the second semester of this year show that KROTON delivered growth in revenue from new students of nearly 20%. The business is very well positioned to compete in the current market and to capture any opportunities that arise from the improving economic scenario, given its: (i) broad and unique distribution network, with excellent levels of management and efficiency, and commercial operations focused on value creation; (ii) complete portfolio of programs and products that are aligned with the needs of the job market; (iii) high-quality academic model, as shown by the results of the latest Enade exam, in which KROTON was the company that most improved; (iv) employability portal, which is one of Brazil’s largest; and (v) revitalized campus infrastructure, unified systems and virtual environments that offer an increasingly enhanced experience for students, which increases their satisfaction with our institutions. Moreover, the more than 64 own units opened in recent years continue to mature and will start to contribute more substantial volumes of students to the Company’s base, while also starting to make a positive contribution to cash generation.

PLATOS, the B2B2C Postsecondary Education vertical, is currently experiencing rapid expansion, with a revenue CAGR of around 30% in the last two years. Although still small compared to the other verticals, the addressable market of PLATOS is R\$34 billion and the Company is rapidly advancing to become a complete content and solutions platform for any Postsecondary Education institution in Brazil, whether it offers Undergraduate or Graduate programs. This is a market with low competition and huge growth potential, and PLATOS was born already with its client portfolio including the largest Postsecondary group in Brazil and one of the most recognized brands in content, which will help to support its future growth.

At **SABER**, the B2C/B2Gov K-12 Education vertical, there is an excellent opportunity to optimize the current platform, which was already created with 54 own schools and management contracts, by capturing operating efficiency gains and adopting a series of initiatives, such as: (i) new commercial approach; (ii) more robust offer of complementary solutions; and (iii) investments in technology to improve the experience of students and parents. This is a highly fragmented market that offers consolidation opportunities for the medium term. In the National Textbook Program (PNLD), we have been able to increase the approval rate of titles and maintained a solid share in the 2020 program, which will become visible in the revenue for next quarter. The goal for the coming years is to increase investment in publishing and to submit more titles to the program in order to gain share and return to the level of past years.

Lastly, **VASTA**, the B2B K-12 Education vertical, is currently experiencing strong growth. After the acquisition, we implemented profound changes in the Company, which no longer is a content provider, but rather an integrated service platform for serving as a one stop provider for private K-12 schools by supporting their digital transformation in educational and administrative activities. Our K-12 Platform was developed under the platform as a service concept, which is characterized by a long-term subscription model that generates recurring and predictable revenue, based on technology, scale and high growth. The reputation of our brands, the quality perception of our products and services and our educational results and innovation have given the Company a unique positioning in the market and should ensure solid growth this year. Today, we announced the preliminary result of the Annual Contract Value (ACV) for 2020 of our K-12 Platform, with subscription revenue growth projected for next year of 20%, whereas the commercial cycle continues until January 2020, which offers additional upsides. The ACV is calculated based on the revenue from contracts for traditional learning systems, learning systems based on textbooks (PAR) and complementary education products (e.g., Socioemotional and English). For the coming years, the prospects are excellent, with expectations of growth in our current services and the addition of new services to our Platform. We also have begun discussions for acquiring companies that provide services to schools, which could accelerate growth and further expand opportunities for cross-selling and up-selling. We continue working to consolidate Vasta as the leading and most complete partner of private K-12 schools in Brazil.

CORPORATE GOVERNANCE

To support all these enhancements to our business structure, we are proposing a new corporate governance framework, which will be submitted for approval to the extraordinary shareholders meeting scheduled for December 9. Considering the proposed changes, we would be supported by a Board of Directors formed mostly by independent members, combining a high level of experience in the education industry, which already was a key characteristic of the current composition, with the welcomed addition of new competencies to ensure the full success of this new phase in which the organization is embarking.

3Q19 RESULTS AND GUIDANCE

With regard to the results reported herein, **COGNA** reaffirms its expectation of delivering its guidance for 2019, especially for EBITDA and Cash Generation after Capex, the main focuses of the Company. Considering the different seasonality of certain lines of our results and, specially, the PNLD receivables this year, the expectation is for very strong results in 4Q19. In other words, we have been able to move very well in an environment with pressures from the macroeconomic scenario, the change in the profile of the On-Campus student base and the initial maturation stage from the new Postsecondary Education units, while also reaching important milestones to deliver a more promising future, as the growth in the ACV and in the average ticket for new undergraduate students.

Implementing structural changes that expand our addressable market from R\$55 billion to R\$174 billion while simultaneously delivering the guidance for 2019 shows that we are reconciling our short-term deliveries with the construction of long-term

opportunities. And all of this while upholding our mission of transforming people's lives through Education. **Cogna, knowledge that transforms.**

OPERATING PERFORMANCE

POSTSECONDARY EDUCATION

Evolution in Number of Postsecondary Students

At the end of 3Q19, Cognia had around 865,700 students enrolled in Postsecondary Education (Undergraduate and Graduate), considering the On-Campus and Distance Learning formats, down 4.9% 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). Furthermore, the persistence of a high unemployment rate and the slow economic recovery also pressured dropout rates. On the other hand, we already are observing improvement in the competitive landscape and in the student recruiting process, as shown by the recently announced student enrollment results, in which the Company posted growth in the number of students in both the On-Campus and DL segments, and with much stronger revenue from newly enrolled students. Compared to the previous quarter, the 2.6% contraction in the overall base reflects the smaller base of students eligible for re-enrollment, given the increases in the dropout rate and graduations at the end of the last semester. A breakdown by teaching format in Postsecondary Education shows that the On-Campus segment accounted for 41% of the student base, while the Distance Learning segment accounted for the other 59%.

Note that the new enrollment and re-enrollment processes for the second semester of 2020 already have begun and that Cognia continues to focus on maintaining its high academic standards, while reinforcing its capacity to create value by adopting a more sustainable pricing policy, while strengthening its brands and commercial actions to deliver growing results in student recruiting and retention..

1. Undergraduate (Kroton)

1.1 On-Campus Undergraduate

The enrollment and re-enrollment processes in the On-Campus segment for the second semester were concluded with very solid results, which reinforces the Company's resilience in delivering consistent and sustainable results. The highlight in this latest cycle was out-of-pocket students (ex-FIES and ex-PEP), which grew for the fourth straight year by adding approximately 53,000 new students in the period (+14.6% vs. 3Q18), which reinforces the success of the sales strategy and the alignment of the sales team's compensation, which prioritized this student profile.

In all, over 64,000 new students were enrolled in On-Campus Undergraduate programs, including out-of-pocket, FIES and PEP students, representing growth of 1% on the same period of 2018, but with growth of 16% in the segment's total revenue from new enrollments. This result reflects Kroton's strategy to adopt a dynamic pricing policy that reduced the granting of scholarships, discounts and installment payment options, seeking to build a solid base of new students with higher revenue and cash generation. This was only made possible by the group's strong brands, teaching quality (as confirmed by the latest results of the Enade exam, in which Kroton's institutions improved significantly) and important differentials for continually enhancing the student experience, such as virtual learning environments and an exclusive employability channel (Conecta)

that continues to grow consistently. In addition, around 2,200 new 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.

Adding the 66,205 new students enrolled in 2019.2 to the 275,746 students re-enrolled in the period, the student base in the On-Campus Undergraduate segment in the semester stood at 341,951 students, down 7.4% from 2018.2, reflecting the higher dropouts in the period and, primarily, the higher number of graduations of FIES students.

FIES

At the end of 3Q19, the Company had 48,450 students enrolled with FIES contracts, down 45.0% 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 latest student-recruiting cycle, which has just ended, FIES accounted for only 3% of new enrollments in On-Campus Undergraduate programs. 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 only a marginal share of students in the coming years. As a result, FIES students accounted for 14.2% of the On-Campus Undergraduate base, or 5.9% of the total Undergraduate student base, down 9.7 p.p. and 4.2 p.p., respectively, from a year earlier.

Between 2014 and end-2019, the number of FIES will have fallen by 80%, and, by end-2020, it is estimated that less than 6% of the On-Campus student base or 2.4% of the total student base will have FIES financing.

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

Considering its installment payment products, Kroton closed 3Q19 with approximately 50,400 students enrolled in PEP programs, with around 22,100 enrolled in PEP30 and 28,300 in PEP50. In the most recent student-recruitment process, approximately 9,200 new students were enrolled with one of the two PEP plans (PEP30 and PEP50), representing roughly 14% of On-Campus new enrollments, up slightly from the recruiting process at the start of the year, but down significantly from the recruiting process for 2018/2. In addition to the lower share of students with installment payment plans, the share of PEP30 also decreased substantially, from 82% to 40% of all students with an installment plan between 2018/2 and 2019/2, maintaining the trend of the first recruiting cycle of the year. For the upcoming student-recruiting processes, Kroton will continue to draw on the strength of this product to attract new students, projecting exposure in line with that of the product's recent history and with a more balanced offering between PEP30 and PEP50.

Note that Kroton continues to adopt the same conservative policies 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, as in previous years. The 50% provisioning level is still adequate based on the behavior observed to date of the dropout rate and the payment of students who dropped out and graduated.

Meanwhile, PMT (or temporary PEP) consists of the option to pay in installments monthly tuitions related exclusively to periods during which new students were not yet enrolled because they were admitted after the start of classes, but still with sufficient time to complete the minimum classroom hours in the semester. Instead of exempting students from these monthly tuitions, Kroton started to offer this option to new On-Campus students as of the second semester of 2016, and to new DL students as of the first semester of 2017. In this way, the Company continues to attract freshmen, enabling their late enrollment without foregoing revenues by granting scholarships or discounts. Note that Kroton adopts the same accounting practice 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 may become due automatically if the student drops out before graduation.

On-Campus Dropout Rate

The dropout rate in the period worsened by 1.0 p.p. on the prior year in the On-Campus segment, a trend that the Company already had anticipated and at a lower level compared to the previous quarter. This performance reflects a shift in the student profile mix, with a lower share of FIES students, who, given the program's original characteristics, had a lower propensity 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. In 3Q19, a total of 116,048 new out-of-pocket students were enrolled into DL Undergraduate programs, up 1% from 3Q18, despite the lower number of ProUni students. Moreover, the same strategy of value creation applied to the On-Campus segment was adopted in Distance Learning, which reinforces just how positive this performance was, and highlights the Company's efforts and expertise in this segment, supported by high-quality teaching, cutting-edge technology, a unique and continually monitored partner network and a complete program portfolio that ranges from 100%-online to Premium DL. Note also that this growth in revenue from new enrollments was achieved despite the higher share of 100%-online DL programs, which corresponded to 47% of all new students. Meanwhile, Premium DL programs accounted for 10% of new enrollments in 3Q19.

Adding the 116,048 new students to the 367,077 students who re-enrolled in the period, the Company ended the third quarter with 483,125 DL students, down 3.7% from a year earlier, which is related to two key factors: (i) the change in the student base mix, with a higher share of students enrolled in 100%-online programs, which have a higher propensity to drop out; and (ii) the effect of new enrollments from prior years with more aggressive commercial campaigns, which admitted students who were less engaged, leading to higher dropout rates in the first semesters.

Distance Learning Dropout Rate

In the DL segment, the dropout rate was stable in the quarter, reversing the increase trend of the past three years. In the period, this indicator was pressured by the larger base of 100%-online DL students. However, the dropout rate among 100%-online students presented a decreasing trend, motivated by the initiatives under the loyalty program and the improvement in Net Promoter Score (NPS) observed in the DL segment. Another important factor is that the dropout rate of Kroton's DL students is lower than that of its peers, given its more comprehensive product portfolio, especially its formats with more hours of on-campus classes, which increase student engagement.

2. Continuing Education (Platos)

2.1 Graduate

Considering only Graduate programs, the student base expanded again by 4.9% on the year-ago period, supported by the recent recruiting processes, especially by new students coming from Distance Learning programs. Student base growth, which has been consistent since 2018, reflects the restructuring of the Graduate segment over recent years through a new platform and the more robust offering focusing on own and partner units. This performance more than offset the significant number

of graduations, of approximately 15,000 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, the Company ended the quarter with 40,589 students enrolled in Graduate programs, of whom 31,886 students were in Distance Learning programs and 8,703 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 27,354 in 3Q19, practically stable from the same period of 2018.

Platos also offers short-duration open enrollment programs that allow students to further their knowledge in various fields, such as Management, Education, Mathematics and Languages. In 3Q19, there were 57,924 students enrolled in these programs, for an increase of 8.6% from the previous year.

The business segment of Educational Solutions for Vocational and Postsecondary Education (SETS) was consolidated into Platos after the acquisition of Somos. SETS is responsible for the sale of books with the Saraiva brand to Postsecondary Education, learning systems for vocational programs under the brand Érica, and preparatory courses for civil servant exams. The main products offered include the sale of Scientific, Technical and Professional books, especially in the fields of Law, Business Administration, Economics and Accounting, Technical and Non-Fiction. In 3Q19, a total of 675,544 books were sold, representing an increase of 12.0% from the same period last year.

PRIMARY & SECONDARY EDUCATION (K-12)

Structuring of K-12 Education segment

Cogna's K-12 Education segment was initially structured into two main Business Units:

1. **K-12 Integrated Services Platform & PNLD/Official Contracts:** comprises all products and services offered to partner schools, such as physical and digital content, teaching support, pedagogical assessment, teacher training, complementary educational content (after school), educational technology, e-commerce solutions and other services. The segment also includes services related to the National Textbook Program (PNLD) and other contracts with official government agencies.
2. **School Management:** comprises the performance of own K-12 schools, as well management contracts for third-party schools (in which large companies/organizations contract us to manage their school units), in addition to all Red Balloon operations (own schools, franchises and in-school units). The Red Balloon operation is consolidated under the School Management Unit, since most of its students study at autonomous units.

However, this division will change as of 2020 to reflect the new business verticals (Saber and Vasta) that were created under the structure of Cogna. Accordingly, the K-12 Integrated Services Platform will become the B2B vertical of K-12 Education under the brand Vasta, while PNLD / Official Contracts will be transferred to the B2C vertical of School Management under the brand Saber. Therefore, as from 1Q20, the financial reporting will be divided as follows:

1. Vasta: K-12 Integrated Services Platform (private)

2. Saber: K-12 Schools (including own schools and school management contracts), Red Balloon and PNLD/Official Contracts

During 3Q19, the Company revised the criteria for identifying operating indicators, which included eliminating the overlaps between core and complementary content and standardizing the cutoff dates for analyses and other definitions. As a result, small changes were made to the figures of 2018, which are now fully comparable with those of 2019.

1. 1.K-12 Platform (Vasta/Somos) & PNLD/Official Contracts

1.1 K-12 Platform (Vasta/Somos)

In accordance with the material fact released today, the Company announced growth of 20% in the amounts already contracted in the Annual Contract Value (ACV) by the K-12 Integrated Services Platform. The increase reflects the new positioning of Vasta, which no longer is a provider of isolated products/services, but rather a Service Platform for K-12 Schools, which effectively puts this business vertical on a whole new growth trajectory. This ACV already contracted is 20% and the forecast is that this number can be exceeded by the end of the commercial cycle.

This result reflects the new commercial strategy implemented during 2019, which included restructuring and expanding the sales team to work on an integrated basis and promoting all of the Company's products and services through an integrated platform concept, with these efforts further supported by the comprehensive portfolio of renowned brands, service excellence, as well as complementary solutions and digital services not currently offered by any other company in Brazil. This approach gives the Company a unique market positioning that enables it to serve schools nationwide, which represents an addressable market of 6.2 million students, representing expansion of 63% from the 3.8 million students enrolled in the schools using Learning Systems.

Note also that the commercial team, which is composed of Sales Consultants, Educational Advisors, Product Specialists and Marketing and Events teams, is the largest in the Brazilian market. In addition, Vasta/Somos also has a dedicated Market Intelligence team that conducts, among other activities, an annual census of over 17,000 private schools to map the products and services that the schools use and/or plan to use. The current campaign also strengthened the Inside Sales area, which is responsible for planning and executing digital marketing strategies, which has produced very positive results.

Considering all of these initiatives, the growth prospects of Vasta's services over the coming years is excellent. In addition to the current services, a structured process was launched for studying the incorporation of new services into the Platform, which may be integrated organically or accelerated via acquisitions or strategic partnerships.

1.2 PNLD/ Official Contracts (Saber)

In mid-October, the Company announced the results of its sales under the National Textbook Program (PNLD) for 2020. The total sales volume of the publishers Ática, Scipione and Saraiva Educação in the PNLD 2020 was 52.0 million books, of which 20.8 million were related to the adoption of new books for Elementary School II and 31.2 million were related to the replacement of books from previous years (for Elementary School I and High School).

The revenue generated by these sales will amount to R\$408.0 million, with R\$175.6 million related to the adoption of new books for the Elementary School II segment and R\$232.4 million to replacements of books from previous years, of which only R\$20 million was recognized in 3Q19.

2. School Management (Saber)

In Own Schools, the Company made progress in integrating all units with the goal of capturing efficiency gains and focused intensely on the commercial strategy for next year, seeking to reinforce the group's brands, ensure a more robust offering of complementary solutions and make a series of investments in technology to improve the experience for students and parents. Consequently, the Company expects to deliver better results for Own Schools in 2020.

FINANCIAL PERFORMANCE

Net Revenue

In 3Q19, the Company recorded net revenue of R\$1,515.8 million, up 21.3% from the same quarter last year, reflecting the consolidation of Somos and of the other schools acquired by Saber throughout 2018 (Leonardo da Vinci and Graduate). The increase was also supported by the higher revenue from new enrollments in undergraduate programs in the last recruiting cycle, the higher average ticket in both segments (On-Campus and DL), the higher volume of PMT plans in the quarter, as well as the better results of: (i) Undergraduate programs at Third Party Units, supported by the expansion in the number of partner centers and the impact from the shift in the student mix with a higher share of Premium programs; and (ii) Continuing Education, with the consolidation of SETS and the consistent growth in the Graduate student base. These effects more than offset the negative effects of the smaller postsecondary student base in the period, especially at Own Units, which is explained by the higher number of dropouts throughout 2019 and by the impact from graduations due to the strong student-recruiting processes of 2013 and 2014. In 9M19, net revenue came to R\$5,097.2 million, increasing 23.1% from the prior-year period.

Costs

In 3Q19, cost of goods and services corresponded to 44.6% of net revenue in the period, virtually stable compared to the same period last year. On the one hand, the Company captured synergies and efficiency gains in K-12 Education due to the consolidation of Somos. On the other hand, these effects were partially offset by the expenses related to the launch of new units and the sale of books to the Postsecondary programs of SETS. In 9M19, the cost of goods and services as a ratio of net revenue in the period was 39.2%, improving 0.4 p.p. from 9M18.

Gross Income

Gross income was R\$839.2 million in 3Q19, up 20.9%, with gross margin of 55.4%, virtually stable compared to the prior-year period, reflecting the factors described above. As a result, gross income in 9M19 amounted to R\$3,100.0 million, with gross margin of 60.8%, representing increases of 24.0% and 0.4 p.p. from the same period last year.

Operating Expenses

Selling Expenses

Selling expenses include expenses with the sales team, advertising and marketing, copyrights and Provision for Doubtful Accounts (PDA). In 3Q19, selling expenses corresponded to 22.5% of net revenue in the period, increasing 2.9 p.p. from 3Q18, due to the higher marketing expenses in both segments (Postsecondary and K-12 Education) and the higher provisioning for losses, also in both segments. In 9M19, selling expenses corresponded to 20.6% of net revenue, an increase of 0.7 p.p. compared to 9M18.

General and Administrative Expenses

General and administrative expenses include expenses with administrative personnel, consulting services, travel, outsourcing and other. In 3Q19, this group of expenses corresponded to 26.6% of net revenue, up 12.3 p.p. compared to the year-ago period, reflecting the consolidation of Somos and the maturation of the new Postsecondary units launched. Accordingly, in 9M19, general and administrative expenses as a ratio of net revenue was 25.4%, up 12.0 p.p. from 9M18.

Other Operating Income (Expenses)

Other operating income was R\$14.7 million in 3Q19, compared to an expense of R\$0.2 million in 3Q18. As a result, other operating expenses amounted to R\$1.8 million in 9M19, compared to the other operating expenses of R\$6.7 million in 9M18.

Financial Result

In 3Q19, the net financial result was an expense of R\$172.5 million, compared to net financial income of R\$93.0 million in 3Q18, reflecting the financial charges related to the debt secured to pay for Somos and the impact from the adoption of IFRS16. The higher debt balance and the liabilities arising from the new accounting standard had a direct impact on the line interest on loans and leases, significantly increasing the Company's financial expenses. In 9M19, the Company recorded a net financial expense of R\$501.2 million, compared to net financial income of R\$198.6 million in 9M18.

Net Income (Loss)

In 3Q19, net income amounted to R\$20.7 million, with net margin of 1.4%, representing a reduction of 94.0% and compression of 26.5 p.p., respectively, on the prior-year period. The main factors in this performance include (i) the higher financial expenses associated with the debt secured to acquire Somos; (ii) the higher depreciation and amortization expenses reflecting the adoption of IFRS16 and the investments in the production of content and technology, which have shorter depreciable useful lives; and (iii) the lower operating result due to the pressures on the Postsecondary Education student base and the seasonality of PNLD in K-12 Education. In 9M19, net income amounted to R\$410.7 million, with net margin of 8.1%, representing a reduction of 68.2% and compression of 23.1 p.p., respectively, on the prior-year period.

Capex and Investments in Expansion

In 3Q19, Cogna invested R\$133.4 million, allocated as follows:

- Information technology and library equipment: R\$7.8 million (6%);
- Content and systems development and software licenses: R\$92.4 million (69%);
- Laboratory and related equipment: R\$5.7 million (4%);
- Expansions – construction and improvements: R\$27.5 million (21%).

During 3Q19, Capex corresponded to 8.8% of net revenue, down from 9.7% in 3Q18. Most of the Capex was allocated to content development, systems and software licenses, which accounted for 69% of the total amount and accompanied the expansion and maturation of the Postsecondary Education portfolio in recent years, especially the maturation of programs in the fields of Engineering and Healthcare and the new Premium DL programs, in addition to all the content renewal for K-12. In this respect, note that, after the consolidation of Somos, the Company now makes publishing investments for the production of textbooks, which are already included in the Capex figure. Another large expenditure was related to the expansion projects, with renovations and improvements at existing units to prepare them for the second semester so as to meet students' expectations and adapt them to the change in the program portfolio being implemented. In the first nine

months of the year, Capex amounted to R\$360.7 million, which corresponds to 7.1% of the Company's net revenue in the period.

Note that, since the start of the year, investments in special projects are now recognized as recurring Capex, in other words, all investments, except expansion, are included in the line "Capex." Accordingly, investments in expansion amounted to R\$37.0 million in the quarter and R\$134.9 million in 9M19, representing 2.4% and 2.6% of net revenue, respectively.

Net Debt

At the end of 3Q19, total cash and financial investments amounted to R\$436.3 billion, down 57.1% from the previous quarter, reflecting the expenditures made in the quarter related to the cash burn of the operation, the payment of interest on debentures, the investments in expansion and the payment of dividends. In addition to the capital raised to acquire Somos and the consolidation of its debt in the balance sheet of Saber (a wholly owned subsidiary of Cognia), total net debt in 3Q19 was R\$7.6 billion, which is virtually in line with the previous quarter. Considering all other short-term and long-term obligations, which include taxes and contributions paid in installments and the obligations and rights related to past acquisitions, Cognia ended the period with net debt of R\$7.9 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 Cognia and Somos over the last few years. In addition, it is worth noting that Cognia also has short-term and long-term receivables that will have a positive impact on its cash in the coming years. These receivables include both short-term accounts receivables, which correspond to one of the installments from the sales of Uniasselvi, FAIR and FAC/FAMAT, and long-term accounts receivables related to the remaining 3 installments of the payment for Uniasselvi, FAIR and FAC/FAMAT adjusted to present value (excluding the earn-out amounts), which will be received annually through 2022. Therefore, including all short-term and long-term receivables, the net debt balance is lower, at R\$7.4 billion. The Company also has short-term stand-by credit facilities that are not included in these figures. Lastly, it is important to note that the current debt level is consistent with the Company's projects and opportunities, and in accordance with the financial covenants agreed 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.

Therefore, operating cash generation before Capex came to R\$256.1 million in 3Q19, down 61.2% from 3Q18, since that period was positively impacted by the payment of the last installment under PN23. The result also was negatively impacted by the higher working capital needs of the Company's installment payment products, the higher PDA due to the still-unstable economic environment and the higher financial charges in the period. However, this cash generation maintained the positive trend of the prior quarter despite the different schedule of PNLD receivables, which reinforces the positive outlook for the coming quarter, especially considering that 4Q19 has a stronger cash generation profile due to the seasonality of receivables from PNLD and FIES. By adding Capex disbursements, operating cash generation in 3Q19 was R\$122.7 million, which is in line with the efforts to mitigate the pressures that Company has faced from the shift in the student profile and from the costs inherent to offering installment products using own capital. The Company's free cash flow was negative R\$579.4 million, reflecting the disbursements made for financing activities, especially for the acquisition of Somos.

Operating cash flow after Capex corresponded to 24.0% of EBITDA in 3Q19 and 1.8% in 9M19. However, on a pro forma basis, i.e. including the cash from PNLD repurchases, the cash conversion ratio was 44.9% in 3Q19 and 9.5% in 9M19, i.e., a consistent improvement compared to the ratio observed in the first half of the year, which shows that the Company is converging to achieve its guidance of R\$800 million for 2019, given: (i) the considerable volume relating to PNLD to be received in 4Q19; (ii) the receipt, in December, of FIES revenue for November, as has been occurring in the past three years; (iii) the lower need for disbursements at the end of the year; and (iv) the expected improvement in the average terms of receivables and payables of the Company.

CAPITAL MARKETS AND SUBSEQUENT EVENTS

STOCK PERFORMANCE

Cogna's stock (COGN3) 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 3Q19, registering financial trading volume of R\$11.7 billion and 1,941,330 trades in the period, which represents average daily trading volume of R\$179.7 million. Cogna's stock is currently covered by research analysts at 13 different local and international institutions. At September 30, 2019, Cogna's market capitalization was R\$18.4 billion.

In the third quarter of 2019, Cogna's stock price increased 1.9%, while the Bovespa Index (Ibovespa) advanced 8.7%. In the same period, the IGC, ITAG and ICON gained 6.3%, 5.0% and 17.3%, respectively. In the nine-month period, Cogna stock price increased 26.0%, while the Ibovespa, IGC, ITAG and ICON gained 19.2%, 23.2%, 20.9% and 42.4%, respectively.

CREDIT RATINGS

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

OWNERSHIP STRUCTURE

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

DIVIDENDS

In the Meeting held on November 13, 2019, the Board of Directors approved the distribution of dividends related to the results for the third quarter of 2019 in the amount of R\$7.7 million, which will be calculated towards the minimum mandatory dividend for 2019 and corresponds to R\$0.0047388621 per common share and to 40% of corporate net income, after deduction of the legal reserve. Shareholders of record at the close of trading on November 19, 2019 are entitled to the dividends.

ABOUT COGNA EDUCAÇÃO

Cogna Educação is one of the largest private 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 3Q19, Cogna had approximately 866,000 students enrolled in its On-Campus and Distance Learning Postsecondary Education programs at its 176 own Postsecondary Education units and its 1,410 accredited Distance Learning centers. On October 11, 2018, Cogna 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 K-12 businesses. In K-12 Education, in 3Q19, the consolidated operation had around 36,000 students in 54 own schools/school management contracts, approximately 26,000 students in 125 units of Red Balloon, and 1.3 million students served through approximately 4,000 associated schools using solutions of core content, complementary content and digital services.

Comments on the behavior of guidance:

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

Somos' Results:

	2019 Consolidated (Guidance)	1Q19 Consolidated (Actual)	2Q19 Consolidated (Actual)	3Q19 Consolidated (Actual)	9M19 Consolidated (Actual)
Net Revenue	R\$ 1,933 million	R\$ 515 million	R\$ 328 million	R\$ 320 million	R\$ 1.163 million
Adjusted EBITDA	R\$ 670 million	R\$ 205 million	R\$ 70 million	R\$ 18 million	R\$ 293 million
Adjusted EBITDA Margin	34.7%	39.9%	21.3%	5.6%	25.2%
EBITDA ¹	R\$ 621 million	R\$ 192 million	R\$ 51 million	R\$ 13 million	R\$ 256 million
EBITDA Margin	32.1%	37.3%	15.6%	4.0%	22.0%
Operating Cash Generation After Capex	R\$ 150 million	-R\$ 90 million	R\$ 12 million	-R\$ 103 million	-R\$ 180 million
Conversion (with IFRS 16)	24.2%	n.a.	26.9%	n.a.	n.a.
Conversion (without IFRS 16)	28.7%	n.a.	45.6%	n.a.	n.a.

¹ EBITDA considers interest and penalties on tuition and does not consider impact of inventory surplus

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

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

In 3Q19, we did not receive the repurchase of PNLD 2020, as we expected, which impacted both revenue and cash generation, and the quarter is seasonally weaker. Accordingly, 3Q19 concentrated 17% of Net Revenue and 2% of the EBITDA expected for the year.

As a result, in the nine months to September, the Company delivered 60% and 41% of its full-year guidance for Net Revenue and EBITDA in 2019.

Cognia Ex-Somos' Results:

	2019 Consolidated (Guidance)	1Q19 Consolidated (Actual)	2Q19 Consolidated (Actual)	3Q19 Consolidated (Actual)	9M19 Consolidated (Actual)
Net Revenue	R\$ 5,420 million	R\$ 1,322 million	R\$ 1,415 million	R\$ 1,196 million	R\$ 3,933 million
Adjusted EBITDA	R\$ 2,570 million	R\$ 601 million	R\$ 624 million	R\$ 530 million	R\$ 1,755 million
Adjusted EBITDA Margin	47.4%	45.5%	44.1%	44.3%	44.6%
EBITDA ¹	R\$ 2,450 million	R\$ 571 million	R\$ 580 million	R\$ 505 million	R\$ 1,655 million
EBITDA Margin	45.2%	43.2%	41.0%	42.2%	42.1%
Operating Cash Generation After Capex	R\$ 650 million	-R\$ 140 million	R\$ 128 million	R\$ 225 million	R\$ 214 million
Conversion (with IFRS 16)	26.5%	n.a.	22.4%	45.2%	13.1%
Conversion (without IFRS 16)	31.8%	n.a.	27.8%	59.1%	16.5%

¹ EBITDA considers interest and penalties on tuition and does not consider impact of inventory surplus

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

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

The third quarter is marked by the second recruiting and retention process. Although less representative compared to the first process of the year, the Company presented very strong results, leading the quarter to concentrate 22% of the net revenue and 21% of the EBITDA expected for the year.

As a result, in the nine months to September, the Company achieved 73% and 68% of its full-year guidance for Net Revenue and EBITDA.

Cogna Consolidated Results:

	2019 Consolidated (Guidance)	1Q19 Consolidated (Actual)	2Q19 Consolidated (Actual)	3Q19 Consolidated (Actual)	9M19 Consolidated (Actual)
Net Revenue	R\$ 7.353 million	R\$ 1.837 million	R\$ 1.742 million	R\$ 1.516 million	R\$ 5.097 million
Adjusted EBITDA	R\$ 3.240 million	R\$ 807 million	R\$ 694 million	R\$ 548 million	R\$ 2.048 million
Adjusted EBITDA Margin	44.1%	43.9%	39.8%	36.1%	40.2%
EBITDA ¹	R\$ 3.040 million	R\$ 751 million	R\$ 625 million	R\$ 512 million	R\$ 1.887 million
EBITDA Margin	41.3%	40.9%	35.9%	33.7%	37.0%
Adjusted Net Income ²	R\$ 1.348 million	R\$ 319 million	R\$ 267 million	R\$ 135 million	R\$ 720 million
Adjusted Net Margin	18.3%	17.3%	15.3%	8.9%	14.1%
Operating Cash Generation After Capex	R\$ 800 million	-R\$ 230 million	R\$ 141 million	R\$ 123 million	R\$ 34 million
Conversion (with IFRS 16)	26.3%	-30.6%	22.6%	24.0%	1.8%
Conversion (without IFRS 16)	31.6%	-37.0%	28.8%	33.3%	2.3%

¹ EBITDA considers interest and penalties on tuition and does not consider impact of inventory surplus

² Adjusted Net Income does not consider impact of inventory surplus and amortization of intangible assets

On a consolidated basis, in 1Q19, the Company delivered 25% and 25% of its Net Revenue and EBITDA guidance, respectively, for the whole of 2019, and in 2Q19 delivered another 24% of Net Revenue and 21% of EBITDA. In 3Q19, it contributed 21% of net revenue and 17% of EBITDA. As a result, in the nine-month period, Cognia achieved 69% of its Net Revenue, 62% of its EBITDA and 53% of its Adjusted Net Income guidance for the year.

1. DISCLOSURE OF EBITDA

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

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

	Consolidated	
	09/30/2019	09/30/2018
Net income	410,710	1,290,580
Income and social contribution tax	(158,218)	23,410
Non-controlling shareholders	(7,150)	-
Financial result - note 30	501,240	(198,616)
Depreciation - note 29	966,065	318,184
Accounting EBITDA	<u>1,712,647</u>	<u>1,433,558</u>
(+) Interest and penalties on tuition - note 30	167,425	172,018
Management EBITDA	<u>1,880,072</u>	<u>1,605,576</u>
(-) Nonrecurring items (i)	161,124	186,286
Adjusted EBITDA	<u>2,041,196</u>	<u>1,791,862</u>

	Consolidated		
	9M2019	4Q2018	LTM
Net income	410,710	102,276	512,986
Income and social contribution tax	(158,218)	(36,877)	(195,095)
Non-controlling shareholders	(7,150)	10,891	3,741
Financial result - note 30	501,240	(64,125)	565,365
Depreciation - note 29	966,065	158,294	1,124,659
Depreciation / Amortization – SOMOS (80 days)	-	131,586	131,586
Accounting EBITDA	<u>1,712,647</u>	<u>430,595</u>	<u>2,143,242</u>
(+) Interest and penalties on tuition - note 30	167,425	30,756	198,181
Management EBITDA	<u>1,880,072</u>	<u>461,351</u>	<u>2,341,423</u>
(-) Nonrecurring items (i)	161,124	226,476	387,600
Adjusted EBITDA	<u>2,041,196</u>	<u>687,827</u>	<u>2,729,022</u>

- (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
	09/30/2019	09/30/2018
Termination	67,025	48,762
Restructuring of units	-	30,191
M&A and expansion	94,099	73,674
Others projects	-	33,659
Total Nonrecurring items	<u>161,124</u>	<u>186,286</u>

		Consolidated	
	9M2019	4T2018	LTM
Termination	67,025	31,162	98,187
Restructuring of units	-	10,462	10,462
M&A and expansion	94,099	24,552	118,651
Others projects	-	20,514	20,514
Expenses related to Somos acquisition	-	96,245	96,245
Nonrecurring items Somos – 80 days	-	43,541	43,541
Total Nonrecurring items	<u>161,124</u>	<u>224,476</u>	<u>387,600</u>

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 presencial 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 September 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.