



# SUSTAINABILITY REPORT

# 2016

Social Responsibility





## Mission

To improve the people's lives through responsible and quality education, while instilling in them a sense of citizenship, preparing them for the market and helping them advance their life projects.



## Vision

To be a reference in education through innovation and sustainable practices and the best choice at which to study, work and invest while maintaining leadership positions in our various markets.



## Values

- **Passion for education:** We are educators driven by our passion for advancing personal and professional development.
- **Respect for People:** We foster respect diversity and our commitments and work to cultivate our relationships.
- **Honesty and Responsibility:** We act with integrity and transparency and assume the impacts of our actions.
- **Make it happen:** We work proactively and quickly to transform ideas and challenges into accomplishments.
- **Focus on Creating Sustainable Value:** We generate positive and sustainable impacts for society.
- **Working and Learning Together:** We join forces to achieve common goals.

# Summary

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# Our performance highlights for the year

## Continuous development for quality education

- We have consolidated our education system, the **KLS 2.0**, and expanded its reach to 79% of our students, taking our innovative and high quality academic model to an ever-growing number of people throughout Brazil.
- We have implemented the **Sintonia Project**, which led corporate employees to experience what the students experienced at the units and centers, helping to rethink the processes to improve our operations.
- We expanded the activities of the **Retention Program**, which seeks to combat student dropout rates by identifying potential leavers and creating contact channels to engage them during the critical moments of their academic life.

## Supporting our students

- We have expanded the **Private Special Installment Plan (PEP)**, which allows our tuition fees to be paid in installments for our courses, totaling 43,500 students by the end of 2016.



- The student base and companies in the employability platform **Canal Conecta** have expanded and now reach 192,000 active resumes and 48,000 job opportunities, improving the employability of our students in a period where national unemployment rates are worsening.



- Through the **Premium DL**, we have increased our offer of Distance Learning to courses with a higher load of practical subjects, such as engineering and nursing, helping to train quality professionals in distant regions of Brazil.

## Contributing to education in Brazil

- We have created the 'Trilha do Enem' (preparation platform for Enem exam), a free program that helps students prepare for the National Secondary School Exams (ENEM). In 2016, 260,000 students benefited from the tool.



- The initiatives and social responsibility projects run by the on-campus units and distance learning centers have affected more than 2.3 million people throughout Brazil.

- We launched **Aliança Brasileira pela Educação**, a Brazilian Alliance for Education that aims to contribute nationally to strengthen state school leadership, which served approximately 300 state schools in São Paulo in 2016, benefiting approximately 350,000 students.



## About the Report

GRI G4-18 | G4-19 | G4-24 | G4-25 | G4-26 | G4-27 | G4-28 | G4-31

Welcome to the 2016 Kroton Sustainability Report, a document that aims to disclose, in a clear manner, our principles, strategies and results for the period between January 1 and December 31, 2016.

For the third year running, we have used the *Global Reporting Initiative (GRI)* - the G4 version, as the basis for building the report.

Following our commitment to transparency and sustainability, in this publication, we have gathered the economic, social and environmental aspects that are fundamental in achieving our passion for educating with responsibility and quality.



The GRI is the most widespread guideline among companies worldwide to guide the information included in sustainability reports. It offers a set of standard indicators that help companies keep up with their social, environmental, and governance performance over time. Find out more at:

<http://goo.gl/cguA56>

To ensure that this Report gives our stakeholders important information, we carried out a study in 2014 to understand which issues most affect our sustainability in the short, medium and long term.

## Stages of the study

- Analyze the documents in our operation, such as the strategic map and performance drivers;
- Collect the opinions of our public - employees, students, teachers, suppliers, the community, shareholders and the government - disclosed in studies carried out in previous years; and
- Identify the main socio-environmental aspects of interest for our investors.

This process pointed to eight topics, which were relevant to Kroton's sustainability and have served as the basis for our latest reports.

For the 2016 Report, a new study was carried out to assess its relevance and the eight topics were maintained, demonstrating the maturity of the process. The review, however, brought some changes to the names of the topics to facilitate how our different audiences understand them, shown below:

### Topics relevant to Kroton sustainability



**1** Operational Excellence and Academic Quality



**5** Efficient Use of Natural Resources



**2** People Management and Organizational Culture



**6** Corporate Governance



**3** Access to Education



**7** Solid Economic and Financial Performance



**4** Socio-Environmental Programs and Social Impact



**8** Jobs and Income Generation



If you have any questions, suggestions, or if you need any additional information, please contact us:

[responsabilidadesocial@kroton.com.br](mailto:responsabilidadesocial@kroton.com.br)

Following the GRI recommendations, we have monitored and reported the indicators relating to these topics. You may find them throughout this publication, shown by the acronym **GRI G4**, or in the Global Reporting Initiative (GRI) session, on page 109.







# Message from the CEO

## GRI G4-1

We are very proud to announce the 2016 Kroton Sustainability Report, which presents key information about our operations during this period, reinforcing our commitment to continuously deliver quality education to future generations.

The year 2016 was challenging not only for our company, but also for Brazil. Economic indicators, such as the unemployment rate and GDP, showed a turbulent scenario. Even within this context, Kroton achieved very positive results, maintained growth and made important academic, social and environmental achievements.

In April of this year, we had the great pleasure of celebrating 50 years of the creation of the Pitágoras, which is the origin of our story. The Company has been at the forefront of education since its inception as a pre-college course. For five decades, we have been dedicated to the mission of improving people's lives through responsible and quality education, helping generations of Brazilians to gain degrees, achieve their life goals, and transform the lives of many others.

From an academic point of view, we continue to expand our teaching system - KLS 2.0 - which aims to teach our students the skills that



Credit: Kroton Collection

will help in their employability. We have been able to roll it out to our units, making the system a fundamental factor in bringing quality education to the entire country. Because of this effort, by the end of the year, 79% of our students had contact with at least one subject developed under the new model.

We have also expanded our Distance Learning (DL) operations in Brazil. In 2016, we opened 232 new DL centers, which now total 910 centers. In at least 90 of the cities where we started to operate, we have become the only higher education institution present, allowing thousands of people to be included socially and give them access to quality education.

At the same time, we started the Premium DL project, which adapts our Distance Learning methodology to courses with many practical subjects, such as engineering and nursing. They are highly sought-after courses, which, because of their complexity, are not easily found in the less developed regions, and where this type of professional is needed. We believe that Premium DL can be a solution to this problem.

The year was also marked by the expansion of the Canal Conecta, our employability platform, that brings our students closer to the job market. In 2016, it reached 170,000 registered resumes, with 4,000 partner companies offering job opportunities. The Canal Conecta becomes even more important in order to expand the opportunities of our students entering the labor market in moments of crisis such as the one Brazil went through last year, when the unemployment rate reached 12%.

In this context, it is also worth highlighting our initiative to offer students the Private Special Installment Plan (PEP), which allows them to finance up to 70% of their monthly tuition, and can be paid off after the program has ended. The project came at a critical moment when the Brazilian government increased the requirements for FIES access, reducing the number of students who were eligible for funding. In 2016, the number of our students who used the FIES dropped from 238,200 to 191,400. On the other hand, the number of students with PEP increased from 17,100 to 43,500.

Kroton's commitment to social responsibility also deserves to be highlighted, with the launch of the Aliança Brasileira pela Educação (Brazilian Alliance for Education), a movement organized by the

Company that integrates various sectors of society to improve public education in Brazil by strengthening the leadership of state schools. The Pitágoras Foundation, the main partner in this initiative, has a very successful history of dedication and contribution to improving the quality of Brazilian education and helping students perform well by using its Integrated Management System (IMS) methodology. It strengthens and aligns everyone's effort - students, teachers and leaders - focusing on improving the way they learn, and has already reached more than 736,000 students in the public network.

We managed to achieve all of this at the same time as we improved our management on our environmental impact. In 2016, we developed better controls and measured the exact water and energy consumption of all our units, increasing efficiency and allowing us to properly control the reduction in the use of these resources over the coming years.

In addition to providing quality education to our students, we have contributed to the evolution of society as a whole, growing in a sustainable manner and transforming lives in different areas.

The 2016 Kroton Sustainability Report will further detail the topics outlined in this message, which makes Kroton a company that is passionate about education.

Good reading,

**Rodrigo Calvo Galindo**  
CEO of Kroton





# Kroton: Education is our passion

GRI G4-3 | G4-4 | G4-7

## Educating for half a century

In 2016, Kroton completed 50 years of intense dedication to Brazilian education.

Our history began in 1966, in the city of Belo Horizonte, when four educators decided to teach classes to students who were trying to pass the University entrance exam, and launched the Pitágoras brand.

Founded by teachers who believed in the power of education to transform the lives of young people, our Company has been passionate about education, which has been in its DNA since its inception.



April 11, 2016 marked the 50-year anniversary of Pitágoras. To mark that date, we have published a commemorative website and book that recall some of this rich history. Follow the steps of our journey over the years at: <http://50anos.pitagoras.com.br/>

## Supporting the student in all the phases

Fifty years later, Kroton Educational S.A. is the largest private educational organization in Brazil and one of the largest in the world, continuing to take this passion to all corners of the country and transform the lives of thousands of Brazilians.

Today, we are proud to offer quality education to students in all stages of their lives, from kindergarten to post-graduate degrees.

In the Primary and Secondary Education segment, we mainly support partner schools through our Learning System.



Credit: iStock



In this report, you will learn a lot more about each of the projects we offer to our students and Brazilian society, helping to build the future of education in Brazil.

In Higher Education, we offer graduate and post-graduate programs (stricto and lato sensu), on-campus and distance learning, through our brands that are a benchmark throughout Brazil.

We also offer technical courses, exam preparation and unregulated courses in our units and distance learning centers.

# Multiplying knowledge throughout of Brazil

## GRI G4-8 | G4-9

In line with our vision of being a benchmark in education, we operate in all Brazilian states. We are a reference for regional and national development, promoting social inclusion through education in the places where we offer our courses. In some municipalities, we are the only institution to offer Higher Education.



Credit: iStock

With this great network of operations, in 2016 alone, we have already helped over one million people to develop their life projects, taking knowledge even to the most distant regions, forming citizens and professionals who contribute to the growth of Brazil.

Basic education

228 mil students

Education system

669 partner schools all over Brazil

Collection of educational material  
Continuous training  
Educational technology

School management

Educational process management and school coordination for partner companies

Own college

Located in Belo Horizonte, providing educational solutions for the Learning System.



## Higher Education



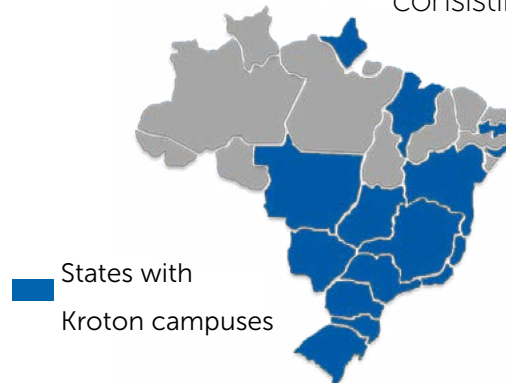
**909 mil**  
students

### On-campus



**1,969 graduate courses.**

**113 campuses** spread throughout all the regions of the country, consisting of:



### Distance learning



More than **240 graduation courses.**

**910 DL centers** registered in 629 cities, spread **throughout all Brazilian States.**

Our network of distance learning centers covers **53% of the potential market** in Brazil.



## Postgraduate studies



**31,458 students** enrolled in postgraduate *Lato sensu* courses and **572 students** enrolled in post-graduate *Stricto sensu* courses (Master's degree and PhD).

## Technical education



**2,000 students** enrolled in the National Program for Access to Technical Education and Employment (Pronatec), spread over 15 courses.

## Preparatory courses



**24,528 students** in preparatory courses for public service exams and **27,643 students** in preparatory courses for the Brazilian Bar Association (OAB) exams.

## Unregulated and language courses



**93,000 students** enrolled in the Unregulated programs and language courses offered at the campus units and DL (*Distance learning*) centers for various courses.



# Responsible and quality education

GRI G4-3 | G4-4 | G4-7

The best choice to study

## Primary and Secondary Education

The search for knowledge begins in childhood

In the Primary and Secondary Education segment, we mainly work through the Pitágoras Network, offering our Learning System to Pre-school, Primary and Secondary Education.

Through it, we deliver complete educational solutions that include textbook collections, teacher training, assessments and a digital learning platform, focusing on various content and with a special highlight for the preparation for the ENEM a Higher Education access exam.



Students from Pitágoras Cidade Jardim School  
Credit: Kroton Collection

In 2016, we served 669 associated schools in 423 municipalities spread across 26 Brazilian states.

During this period, we also developed our first Modular Collection of teaching material. Aimed at Secondary Schools, it allows the associated schools themselves to decide the pace at which content is taught to students. Teachers can, for example, divide all the material throughout the three years at Secondary School, but they can also teach all the content in the first two years and only focus on revision and reinforcement for the entrance exam during the third year.



We also operate in the Primary and Secondary Education segment through the management of schools for partner companies. In 2016, we had contracts with Embraer, Vale and Alcoa, managing schools in São José dos Campos (SP), Botucatu (SP), Carajás (PA), Juruti (PA), Paraopebas (PA) and Ourilândia do Norte (PA).



Pitágoras Cidade Jardim School, Belo Horizonte (MG).  
Credit: Kroton Collection

In addition to these, we also have our own school in Belo Horizonte (MG) - Colégio Cidade Jardim - which serves about 650 students and is used as a showcase for the educational solutions we offer in our learning system. Last year, the school climbed more than 115 positions in the national ENEM ranking, reinforcing the quality indicators used in our educational services.

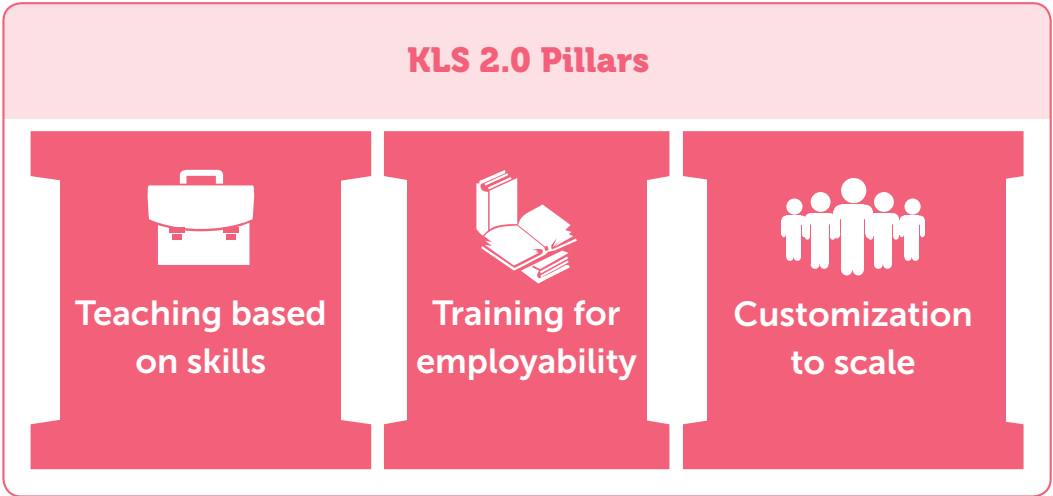
## Postsecondary Education

### Innovative teaching model

For Higher Education students, we offer our quality education through our own teaching model: the KLS 2.0 (Kroton Learning System).

KLS 2.0 is an innovative teaching system, composed of teaching material, assessments, teacher training, activities and classes so that the student reaches the desired professional profile in each course.

This whole system is based on three pillars:



## Learning for employability

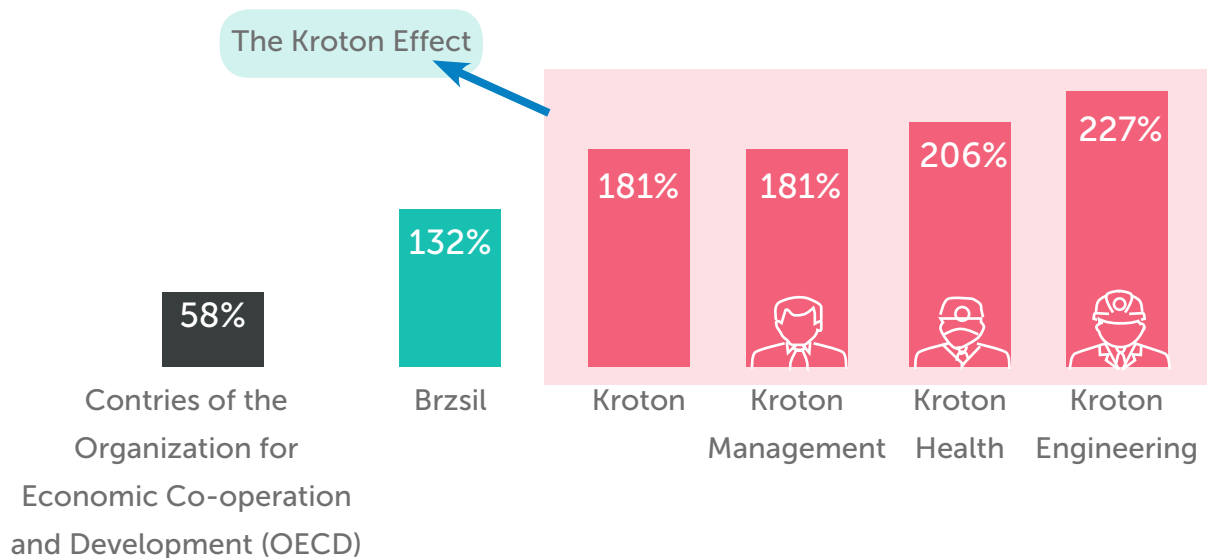


Credit: iStock

In Brazil, a bachelor's degree improves opportunities in the labor market. One of the focuses of KLS 2.0 is precisely the employability of students, bringing them closer to companies. In addition, we know that Higher Education directly affects the salary received by students who graduate. So, by working to improve their employability, we also increase their income and help them achieve their dreams.

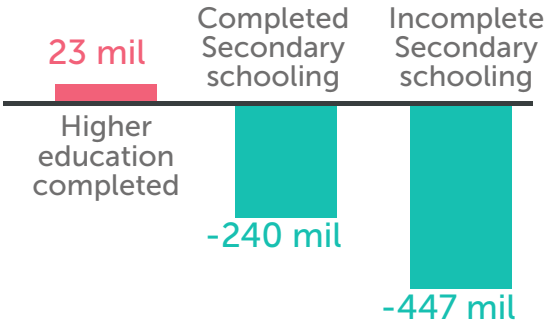
In Brazil, having a Higher Education diploma means a 132% increase in the income of graduates. Kroton courses, on average, represent an even greater increase in wages, reaching 181%.

### Impact of Higher Education on income for graduates



In 2016, Brazil faced a serious economic crisis that considerably decreased the number of jobs vacancies for people only with Secondary School education. On the other hand, in the same period, the vacancies for people who completed Higher Education continued to grow:

**Job vacancies in 2016 per level of education required**



Through the **Canal Conecta**<sup>1</sup>, we have created a bridge with the job market, which helps our students look for work. The Canal Conecta platform is also an important part of our education system, since it allows us to continuously monitor the skills and the professional profile required by the market, quickly adapting our subjects to changes in this scenario.

**Skill-based education**

Another pillar of KLS 2.0 proposes that in our courses we not only teach technical skills but also social-emotional skills, such as communication, teamwork, resilience and commitment to targets.

These skills are increasingly valued by employers and directly affect the productivity of the professional and their ability to build their life projects.

**Personalization on a large scale**

All this is delivered to the student in a personalized way, another important foundation of KLS 2.0. By means of advanced artificial intelligence algorithms, we have been able to identify the needs of each one and, even though we have the largest student base in the entire country, we offer customized materials to specifically address the gaps in their learning.

Despite its complexity, we were able to expand KLS 2.0 quickly

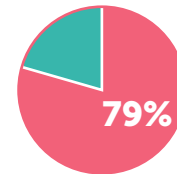
<sup>1</sup> Learn more about the Canal Conecta in the Commitment to employability session, on page 42.



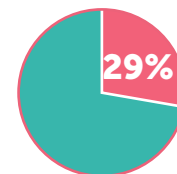
through our various campuses, at the same time we ensure and maintain its quality.

Launched in 2015, KLS 2.0 has expanded quickly in 2016, with 79% of Kroton students having access to at least one course developed for the system, and 29% accessing at least five.

### Students that had to at least one KLS 2.0 subject



### Students that access to five KLS 2.0 subject



## Key differentiating factors for KLS 2.0

### Leadership and greater performance: Flipped Classroom



Credit: iStock

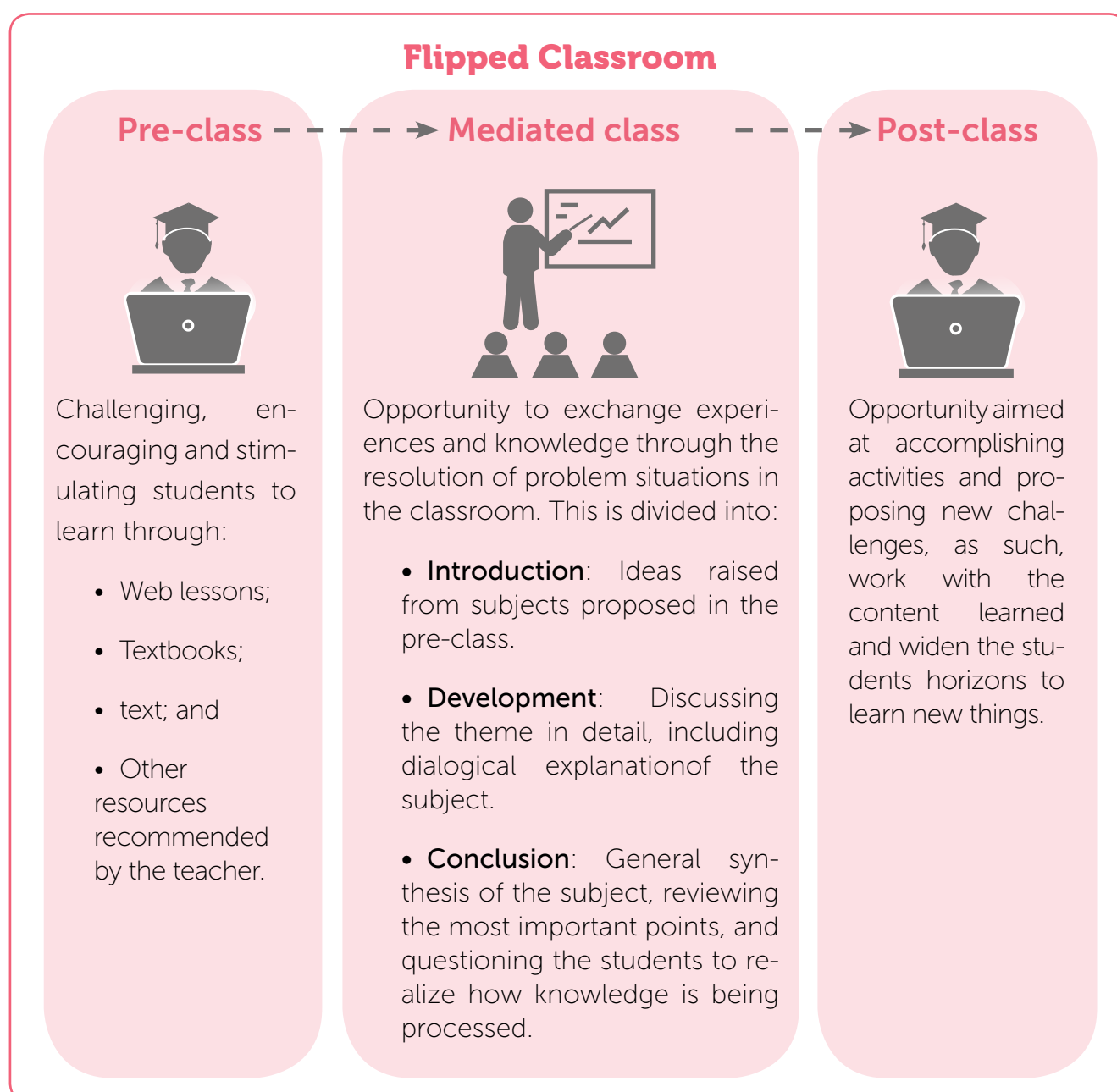
For students to develop the skills required by the job market, KLS 2.0 uses a concept called the Flipped Classroom.

In it, students have access to the material before the lesson, including books, textbooks and video lessons, so they can familiarize themselves with the theoretical subject and prepare for the discussions with their classmates and teacher.

In the class, the teacher focuses on explaining the essential points of the subject and propose debate on situations in the professional world, stimulating the thoughts of the students and developing their social-emotional skills.

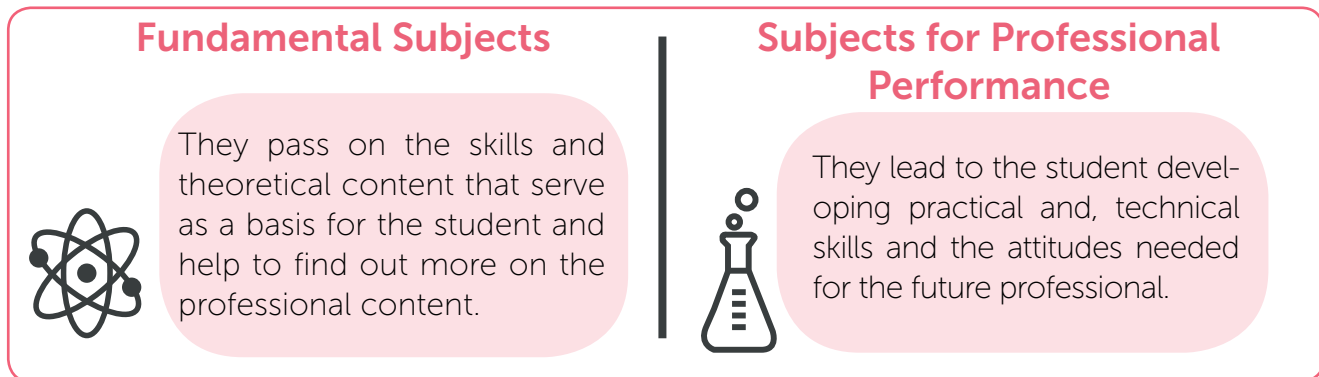
After the class, the student will find supplementary texts and video-lessons that will help them retain what they have learned and look further into the subject, offering activities and thoughts.

As such, KLS 2.0 can increase the performance of classroom activities, organize study time outside the class and create the feeling of a partnership between students and teachers. This type of class encourages students to take on a leadership role in their learning process, developing the intellectual skills and attitudes needed for their education.



## Flexible and integrated syllabus

We look to build syllabuses for our programs in an integrated and flexible manner, combining the technical and social qualifications needing for the development and performance of a quality professional:



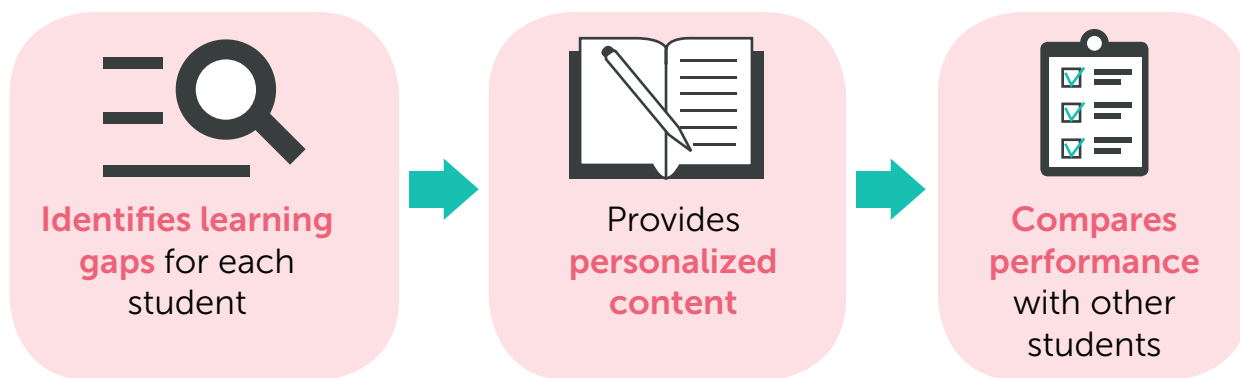
## Adaptive Learning

In KLS 2.0, we apply Adaptive Learning to customize the content offered to each one of our thousands of students. To do this, we combine our sophisticated teaching methodology with innovative artificial intelligence algorithms that allow computers to learn and improve with each new content they analyze.

Through these algorithms, we can identify the deficiencies of each student and personalize their teaching, proposing activities that correct these learning gaps and validate their knowledge. In 2016, about 350,000 students had contact with some adaptive tool in their course.

The student has contact with adaptive learning throughout their academic life. Upon enrolling, we focus on reducing the difficulties that they bring from Secondary School, such as deficiencies in Portuguese and Mathematics. Until 2015, all students who had to pass this levelling phase received the same content. As of 2016, however, we began to use adaptive learning to identify individual difficulties and offer activities that only worked through those flaws, in a program we call Directed Levelling Studies. Throughout the year, about 150,000 students had access to this program.

## Adaptive Learning



### Offered in:



We also use adaptive learning to improve the studies of students who are nearing graduation. We have developed the Desafio Nota Máxima program ("Maximum Score Challenge"), a unique and exclusive Kroton tool that prepares our students for the job market and the National Student Performance Examination (ENADE), conducted by the Ministry of Education to evaluate students at the end of their graduation.

The Desafio Nota Máxima program identifies the content that the student has least learned during the course and offers individualized study tools to reinforce their learning. In 2016, the Challenge was made available to all students who were within a year and a half from taking the exam, reaching about 200,000 people.

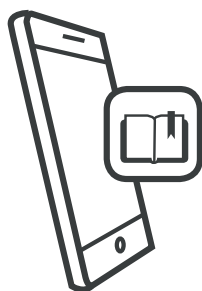
## KLS 2.0 Tools

We offer several tools that support students and teachers in their learning and teaching process:



### Unified teaching material

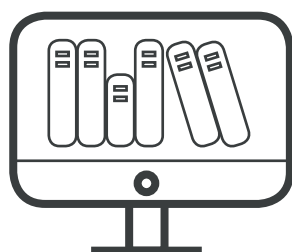
All our learning resources - Web lessons, Textbooks, learning objects and video lessons - are available on digital platforms, thus reducing the environmental impact of printed hard copy versions, and facilitating access to content.



## Saber App

The Saber App is a digital library for students to access a large collection of interactive content and have the knowledge literally at their fingertips. The tool includes materials such as Digital Textbooks and Challenging Learning Activities and allows them to be downloaded to read offline.

Saber is available for iOS and Android and can be downloaded for free by students of all Kroton brands. In 2016, the app jumped from 170,000 hits a year to 4 million, which shows how this tool takes advantage of the Brazilian technological potential on an unprecedented scale.



## BOA

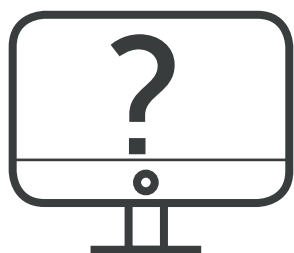
The BOA is a repository for teaching materials (text, digital books and slides of video classes) and for multimedia (videos, audios, interactive objects) available for teachers, coordinators and guardians. In addition to serving as research material, the tool helps prepare learning material proposed by KLS 2.0.



## Student Digital Portal

In 2016, we launched the pilot project of the Student Digital Portal, for students to access their entire academic lives online. With this tool, the student has access to the learning materials, their school information, such as grades and absences, and the administrative and financial services, such as the status of tuition fees and issue of certificates and payment slips, in one place.

The platform, which will be implemented in all our brands and teaching formats throughout 2017 and 2018, allows the student to have full access to the college from wherever they are located.



### Question bank

Structured in 2016, the tool gathers questions that will be used in the tests and exercises proposed in KLS 2.0, allowing the complete management of the production chain of an exam, from ordering the questions, their classification according to theme and difficulty, printing and marking them.

The Bank is already used by 70% of our student base and allows us to monitor its development nationally.

## KLS 2.0 Assessment

Launched in 2015, KLS 2.0 has already reached most of our programs, representing the depth of our ability to improve students' lives. Its transformational effect can be demonstrated by the assessments that teachers and students make regarding the learning system.

A survey conducted in 2016 showed that 92% of teachers considered the curriculum and content offered in KLS 2.0 to be good or great, while 90% rated the organization of content as good or great. Among students, 67% were satisfied with the teaching material and 70% with navigation in the virtual learning environment.

Credit: iStock



## Distance Learning (DL)

### Higher education available for much more Brazilians

To carry out our mission of transforming people's lives through responsible and quality education, Distance Learning is an increasingly important tool.

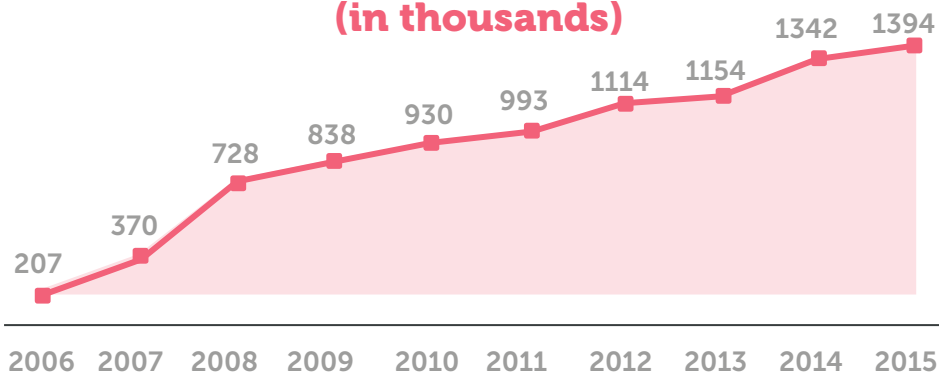
With it, we extend our reach and allow students with time or travel difficulties to continue their studies. In recent years, DL has reached an increasing number of Brazilians in regions previously untouched by Higher Education.



Credit: iStock

Distance Learning is increasingly sought after by Brazilians because of the ease it brings in terms of travel and study time. By 2015, the date of the latest data released, it had reached 1.3 million students.

#### Number of DL students in Brazil (in thousands)

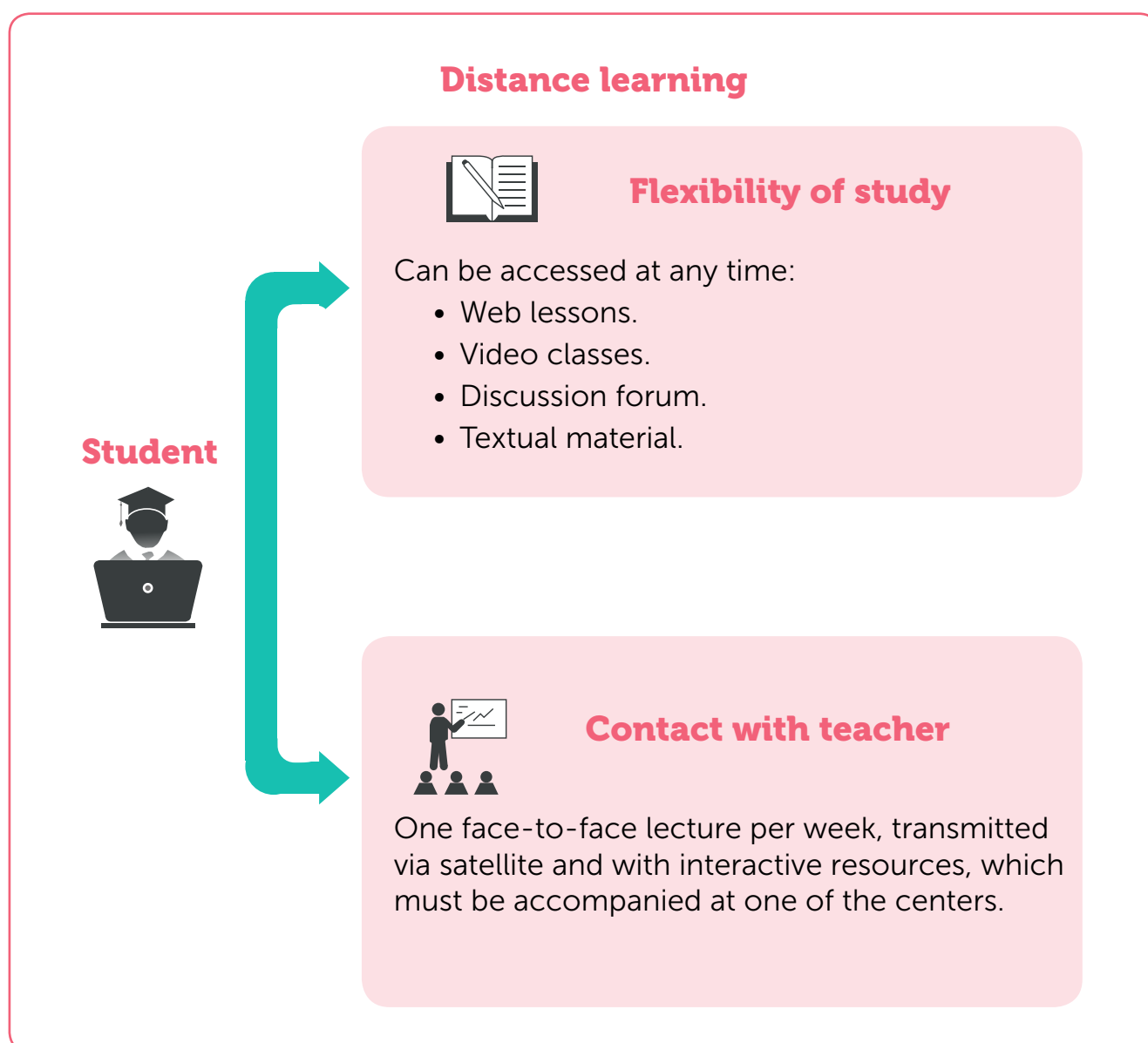


Credit: INEP, 2016. in: <http://portal.inep.gov.br/web/guest/sinopses-estatisticas-da-educacao-superior>

Through our brands, Anhanguera and Unopar, we have the largest DL operation among educational institutions in Brazil. We have 910 DL centers, spread over 631 cities, reaching more than 530,000 students. In 90 of these cities, Kroton is the only higher education institution, in another 142 cities, it is the only one offering DL, which shows our outstanding role in promoting regional development in Brazil. Still, we know there is room to grow even more, increasing the reach of our responsible and quality education.

## Flexibility for different study routines

Our Distance Higher Education courses have their own methodology that offers the student the flexibility to choose the study method that he or she prefers.



The only requirement common to everyone is that once a week the student goes to the center in their region to attend a class transmitted in real time via satellite, with online interactivity, by chat or audio. At the center, the student also finds learning support and an academic environment suitable for his/her studies.

During the rest of the week, the student is free to organize when they will carry out their activities, which are available in the virtual learning environment, such as web lessons, video lessons, virtual assessments and textual productions. They also have a discussion forum to share experiences and ask questions to other students and teachers, just as it is done in on-campus programs.

In 2016, we continued to expand our DL activities, with 232 new centers opened throughout the year. This expansion is done with great care so as to maintain the same academic quality as our on-campus programs. In this sense, we started to use KLS 2.0 in DL programs, a process that should continue in 2017.

## Premium DL

In 2016, we started a new Distance Learning project: The Premium DL aimed at offering programs that require more practical lessons. In this new type of program, we offer some of the content through our Distance Learning platform, and the practical activities are carried out in laboratories at our centers.

The new programs are divided between Health and Engineering, including some of the most sought-after programs by Brazilian students, but which are not usually found far from large urban centers because of the need for infrastructure for practical classes.

This difficulty in reaching the more remote regions becomes clear when



Credit: iStock

we analyze their distribution throughout Brazil. In 2016, on-campus Health programs were held in only 524 Brazilian cities, while Engineering programs were held in 406 cities. Of the cities where Kroton was present, almost half did not have Health programs and more than half did not have Engineering programs.

With the start of Premium DL, 32 centers in our network started to offer Health programs and 79 Engineering programs, demonstrating the clear potential that this new type of program has in promoting the development of Brazil, training quality professionals in the regions in which they are most needed.

### Premium DL Programs

#### Engineering Programs



Civil Engineering

Electrical Engineering

Mechanical Engineering

Production Engineering

Computer Engineering

#### Health Programs



Nursing

Over the next few years, we intend to expand the number of centers reached and increase the number of programs offered within this model, focusing mainly on health and mathematics.

Credit: iStock



## Research and Post-graduate Studies

### Contributing to Brazilian science

In addition to contributing to Brazil's development through our quality education, Kroton also works to strengthen national sciences. We do this through our Research

and Post-Graduate studies department, which is dedicated to training researchers and developing scientific studies. It is organized into seven pillars:



### ***Stricto Sensu* graduate courses and programs**

Kroton offers 19 Master's degree and seven PhD programs. In 2016, we had 572 students and 251 Master's degrees and PhDs were awarded. All these programs have part of the tuition fees subsidized by Kroton, which also grants discounts for undergraduate students and for teachers and Company employees.



### **Scientific research**

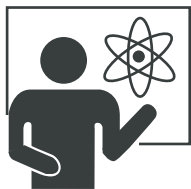
Research activities aim to contribute to solving socio-economic, environmental, business, cultural and health related problems in Brazil, producing direct results on the quality of life of people. In 2016, we invested R\$ 5.6 million in the development of 241 research projects, with the participation of 198 Masters and PhD lecturers, leading to the publication of 526 scientific papers.



### **PIC Scientific Initiation Program**

The program offers Undergraduate students an opportunity to conduct researches, guided by their teachers, to learn scientific methods. In 2016, the program had 448 students, with 236 Scientific Initiation Scholarships.





### **Teacher Training Program**

Annually, we have vacancies for Kroton lecturers to take the Company's Master's degree and PhD programs. We give priority to the areas and units which lack these professionals, in order to improve the educational quality indicators.



### **National scientific event: Gathering of Scientific Activities - EAC**

The event has taken place since 1998 and serves as a channel to disseminate the scientific information produced by our researchers and students. From 2013, the event has become totally online, allowing researchers from different regions of Brazil to take part. In 2016, 385 papers were presented.



### **Platform for Kroton Scientific Journals**

The platform collects and publishes scientific journals through the Open Access system, with access to articles in full. In 2016, we provided dozens of journals from various fields of knowledge, with more than 320 published articles.



### **Institutional Repository - Academic and Intellectual Production Bank**

Created in 2016, this is a digital space dedicated to the publication of the scientific articles written by our teachers and students. Access is free and available to the general public, allowing the dissemination of knowledge to the entire society.

## Offering the best experience

**Retention Program: ensuring that our students complete their studies**



Credit: iStock

For education to improve people's lives, it is fundamental that studies and training are completed. Therefore, we need to keep our students engaged throughout the course of their undergraduate programs.

This can be challenging because, even ensuring quality education, some students drop out before completion, whether for financial, personal or even academic reasons.

Our research shows that the first three semesters are the most critical period, where 79% of students dropout. At the end of this period, 38% of the students in on-campus programs and 45% using DL will have dropped out.

To deal with students leaving, we started the Retention Program aiming to discover and combat the main reasons that lead to drop outs, giving our students the best possible experience. Planned in 2015, it was first implemented in 2016.

One of the main proposals of the Program is to identify which students are most likely to drop out, taking into account financial and academic characteristics - such as grades, classroom presence and accessing the website. Using statistical models, we were able to identify, in advance, seven out of ten students who wish to leave the course.

From this study, we developed the Ideal Way, which traces the best moments and channels for talking to students and engaging them in our programs. In its **Positive Communication** module, we make contact with all undergraduate students, either sending welcome messages to the freshmen, explaining how the Student Portal works or reminding them about tests and coursework due.

In **Preventive Communication**, we look for the students that our algorithms classify as potential evaders. In this case, we use more assertive communication, designed to reach students at times when they most often question their academic career and think about dropping out of school.

We also have **Reactive Retention** projects, in which we act after the student declares that he or she wants to drop out. In 2016, we began to use all of these communication models with our students. We also started a Call Center to address potential leavers. Our goal is that, by the end of 2017, this operation will be able to reach all DL centers and on-campus students, accommodating the student with difficulties and offering possibilities to carry on studying and obtain their qualification.



## The Ideal Way

Establishes the best times to communicate with students

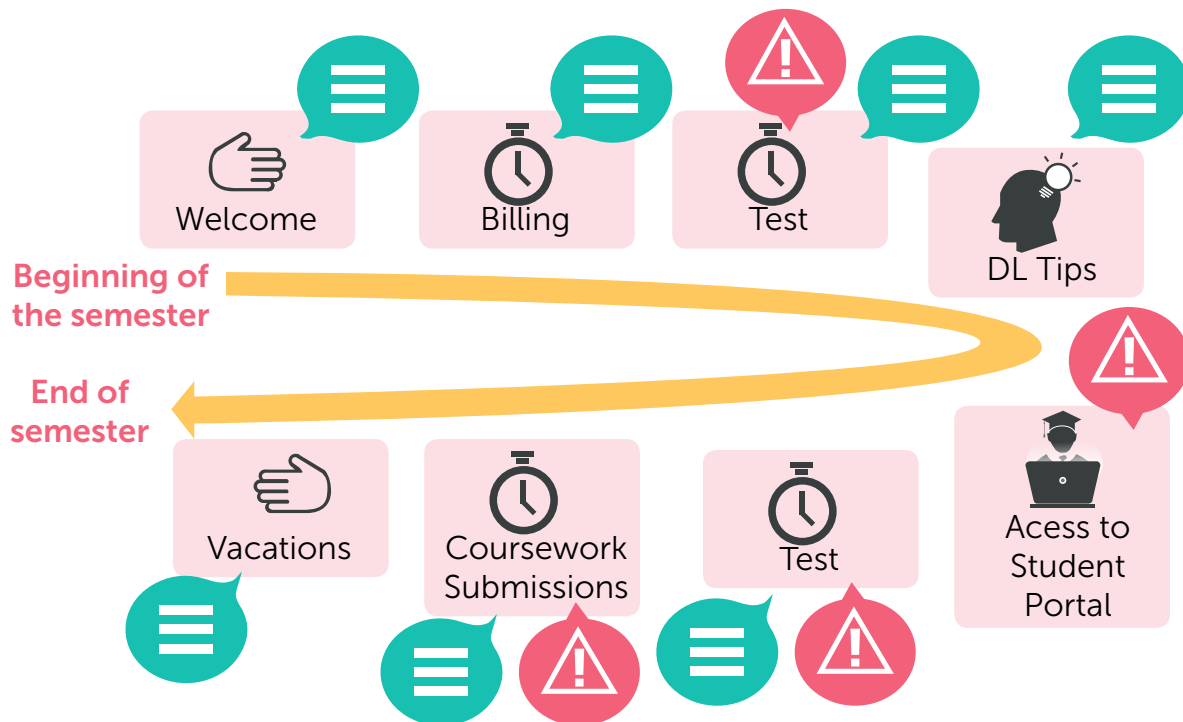
### Positive Communication:

Promotes motivational campaigns to engage all students.



### Preventive Communication:

Encourages students flagged as potential evaders to continue their studies.



At the same time, we started the Senior-Freshman Tutoring, where we put an older student - instead of a teacher or supervisor - to guide the newcomers. We believe that this form generates a more personal and effective communication, coming from someone who has experienced the same troubles, questions and difficulties as the new student and can teach, in practice, how to overcome the challenges of academic life. With the support of the senior student, we hope the freshman understands that the effort to continue studying is worthwhile and that even given the difficulties, Kroton may have the solution. Senior students' work counts as hours of activity for their training, encouraging their participation in the Program.

## Commitment to employability

GRI G4-EC8

Connecting students and the job market



Credit: iStock



The Canal Conecta can be accessed through the link:

[www.canalconecta.com.br](http://www.canalconecta.com.br)

The employability of our students is so important that, since 2014, we have the Canal Conecta: an exclusive online platform that brings together students and ex-students and the job market.

The tool is free and allows partner companies to use Kroton's student base in their selection process for their job vacancies. It is based on advanced artificial intelligence algorithms that match the workforce needs described by the company with tens of thousands of student resumes and points out the best candidates for the job.



# canal conecta

## How it works?

### Student



The student fills in his resume on the Canal Conecta platform step-by-step, with quick and objective questions.



In a second step, the student can fill in his behavioural profile and get access to a complete self-appraisal report.



With the percentage of best fits for that position in their hands, the company selects and "likes" he resumes, creating a short-list.



Finally, the company selects the student for an interview, arriving at the ideal candidate for that position.

### Company



The company states the professional profile they are looking to hire. From this information, the Channel displays the programs that are best suited for the vacancy profile.

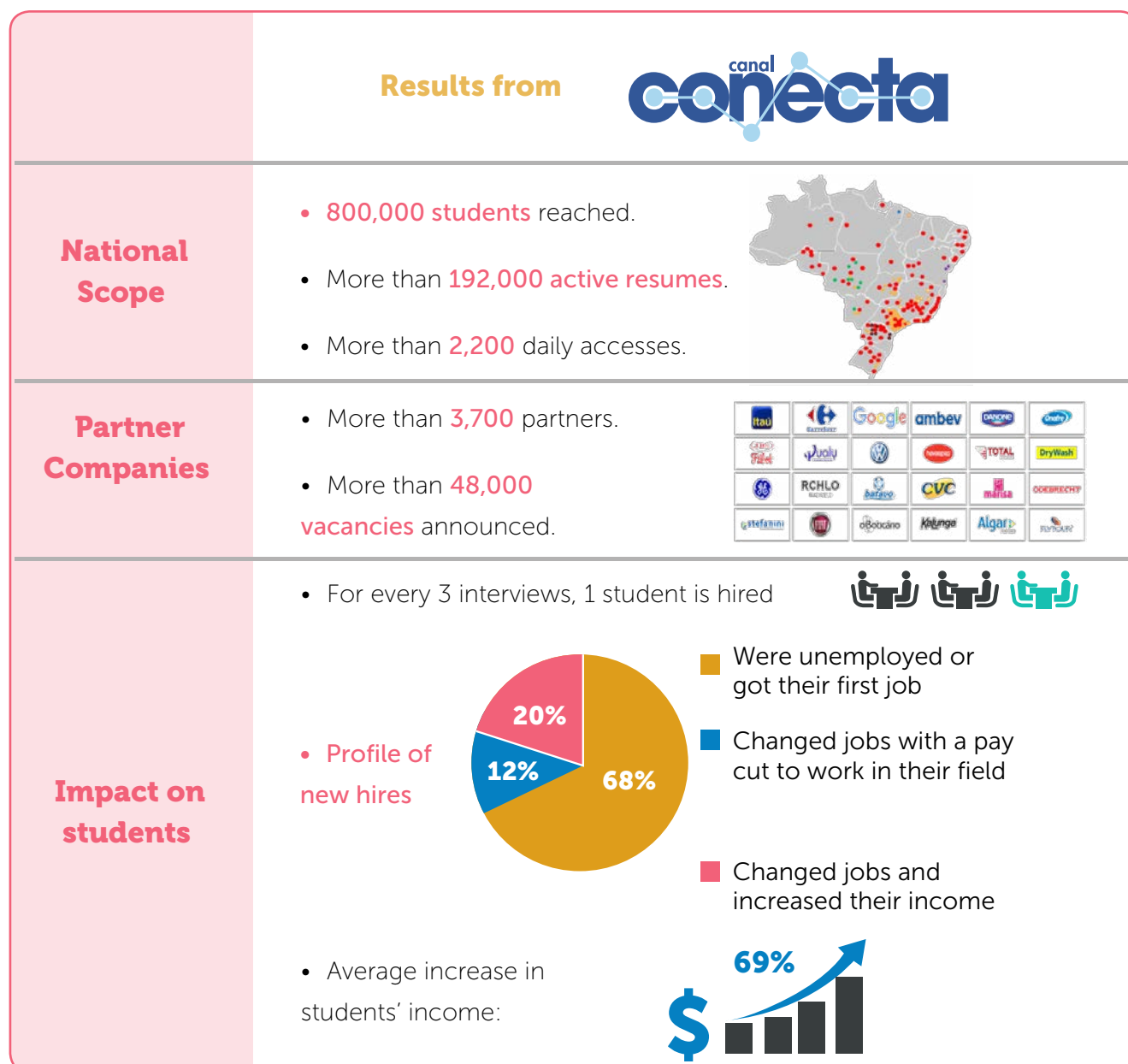


The technical and behavioural skills that the company seeks are compared to those of the students. The geo-location system will locate the professionals that are available in that region.

During the year, the number of partner companies in the Canal Conecta rose from 1,600 to 3,700, while the number of vacancies published on the platform increased from 15,000 to more than 48,000. The students taking part in the initiative also increased from 70,000 to 192,000 by the end of the year.

Even during 2016, when the unemployment rate increased in Brazil, the Canal Conecta continued to grow in an expressive and sustainable manner, reaching all our centers and units.

In addition to the direct benefits to partner companies and students, the Canal Conecta serves as a large database of what companies are looking for in future employees. Through statistical analyses, we have been able to follow the technical and social-emotional skills that are being most demanded by the market and adapt our academic model according to this demand.



## The Sintonia Project

### Connecting Corporate Employees to the Units and DL Centers

The Sintonia Project was created because we understand that corporate decisions that drive our business necessarily need to consider the demands of students - and the best way to get to know their ideas and perceptions about college is to put yourself in their place.



Therefore, the Project proposed that Kroton leaders and managers began to live the experiences of the students, by immersing themselves in their daily lives. In 2016, 28 executives were chosen to participate in the Project. Anonymously, they took the entrance exam, registered, attended the classes, went through administrative processes and experienced the students' reality. As such, they could see how corporate office decisions affect the students' daily lives and contribute to improving their lives.

In 2017, the Project should be expanded, reaching other employee levels and departments, while the observations and proposals made will be implemented in order to continually improve the students' experience.

### Student Support

#### GRI G4-PR5

#### Listening to those people who need to be heard

As part of our efforts to improve students' lives, we seek to open channels for dialogue so that they can give their opinion on any subject, where they can ask questions and praise, make suggestions and complain.

Among the main channels of communication are:

- Online customer service (chat);
- Contact us (e-mail);
- Social networks (Facebook and Twitter);
- Ombudsman and,
- Reclame Aqui ("Complain Here"), an independent communication channel that allows consumers to solve their problems with the companies.



### **Customer service**

Our service is constantly monitored to always offer the best relationship to our students. We always seek to show the necessary information and clarifications, solving possible problems quickly and attentively. As a result, in 2016, we achieved an average satisfaction rate of 76%.



### **Ombudsman GRI G4-57 | G4-58**

The Ombudsman is an alternative channel where the student can deal with and deal with unresolved complaints. In 2016, we received 58,000 contacts, of which 92% were student complaints. We resolved 56% of them within seven business days.



### **Reclame Aqui**

Reclame Aqui is another tool used to support the student to resolve complaints, answer questions and other demands. In 2016, we received 19,500 complaints through this channel, with an average response time of eight days. According to the students' assessment, we had a satisfactory conclusion in 58% of the cases.

## Quality of education

### How we assess our courses

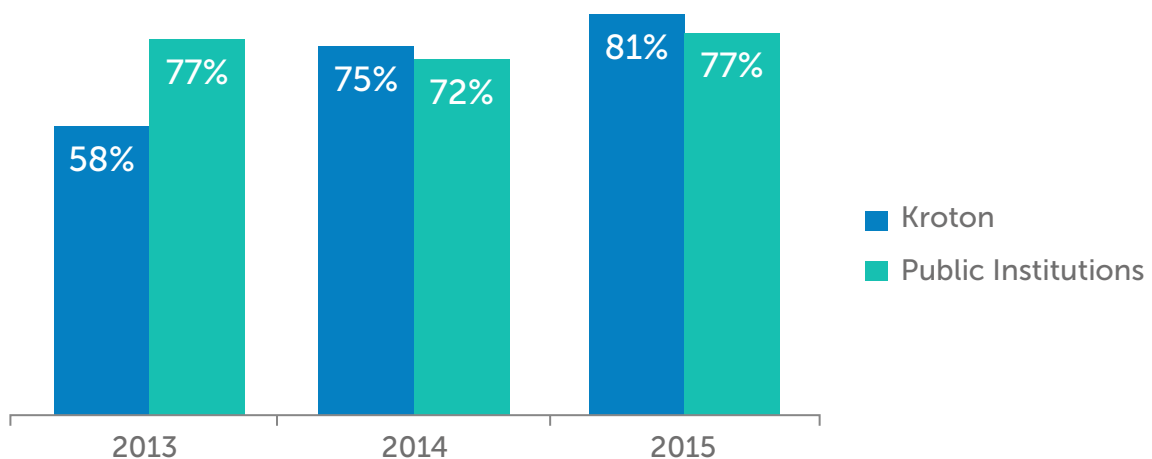
To ensure that the education offered to our students is the best we can offer, we use a number of tools to assess the quality of our programs.

Some of them are indicators from the Ministry of Education (MEC). The ENADE, for example, is measured by an exam given by the MEC to students when they graduate. In 2015, when the last results were announced, 46% of Kroton's courses scored three or more on a scale of one to five.

This indicator, however, measures the general knowledge of the student and usually reflects the characteristics that they bring from their Primary and Secondary Education. Therefore, the Ministry of Education created the IDD, an index that shows the difference between the ENEM and ENADE grades, showing how much Higher Education has added to the student's knowledge. Other important indicators of the MEC that we closely follow are CC, CI, CPC and IGC.

In 2015, when the last results were announced, Kroton set a new record in IDD, with 81% of programs performing satisfactorily. This result is even higher than that of public higher education institutions, which had 77%.

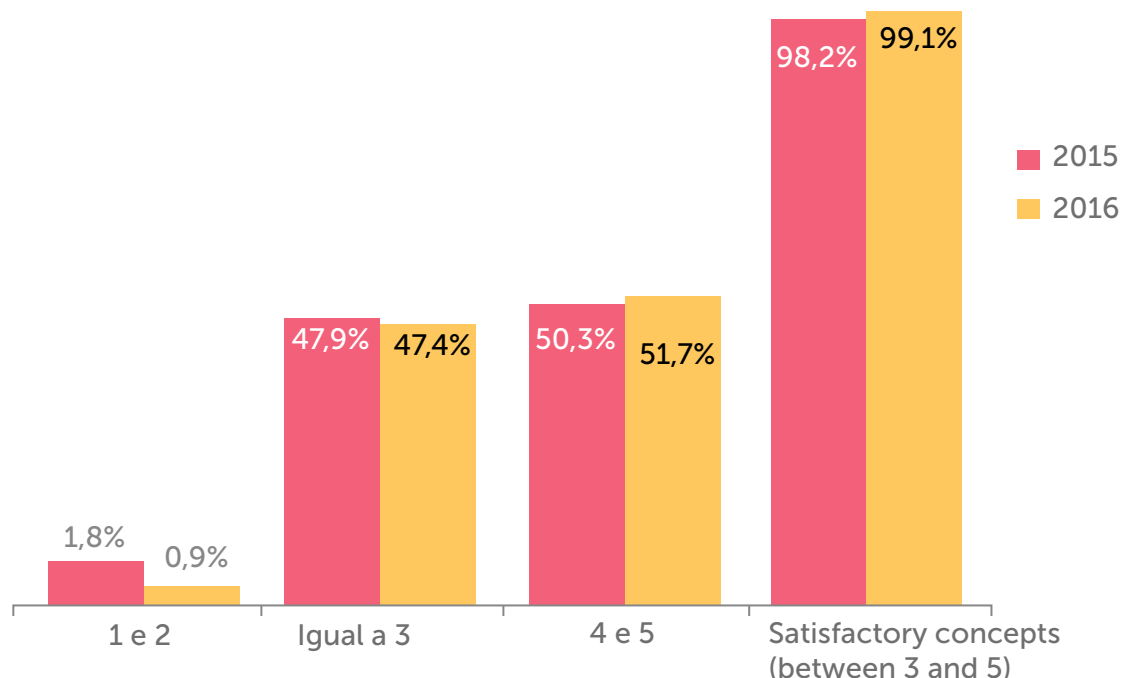
#### Comparison between Kroton IDD and Public Institutions





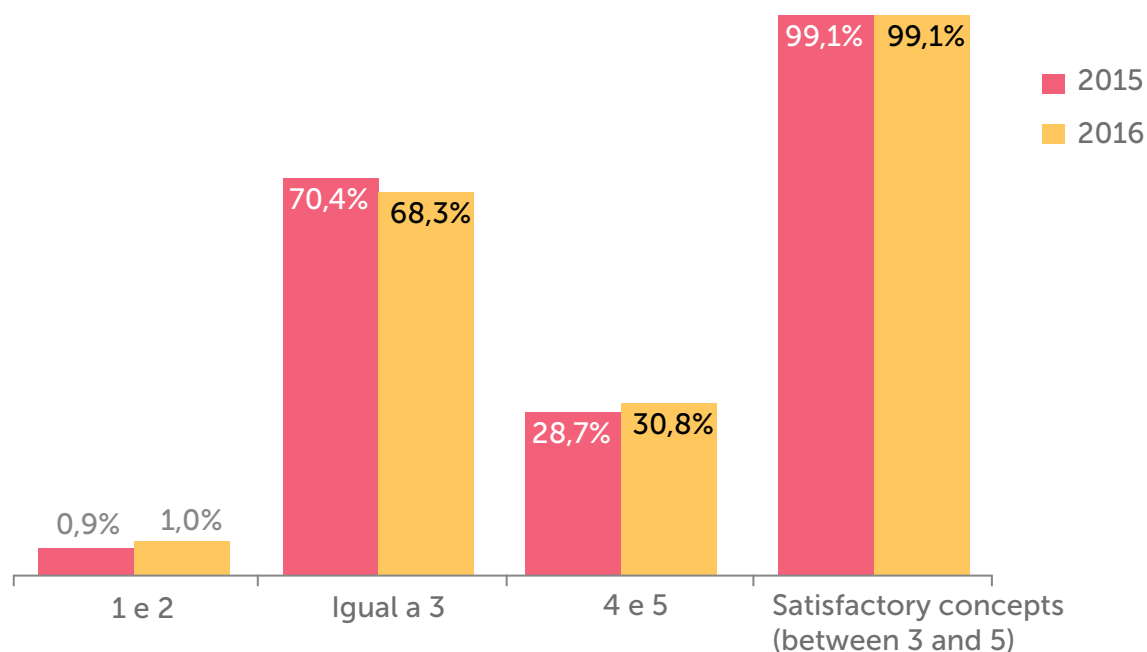
The MEC Course Concept (CC) assesses the programs in its teaching plan, in the faculty and in the infrastructure, on a scale of 1 to 5. In 2016, Kroton increased to 99.1% the number of programs considered satisfactory, with a score of 3 to 5.

### CC for Kroton Programs



The Institutional Concept (CI) of the MEC assesses educational institutions based on their institutional planning and development, academic and management policies. In 2016, Kroton continued with 99.1% of its institutions assessed as satisfactory.

### CI from Kroton institutions

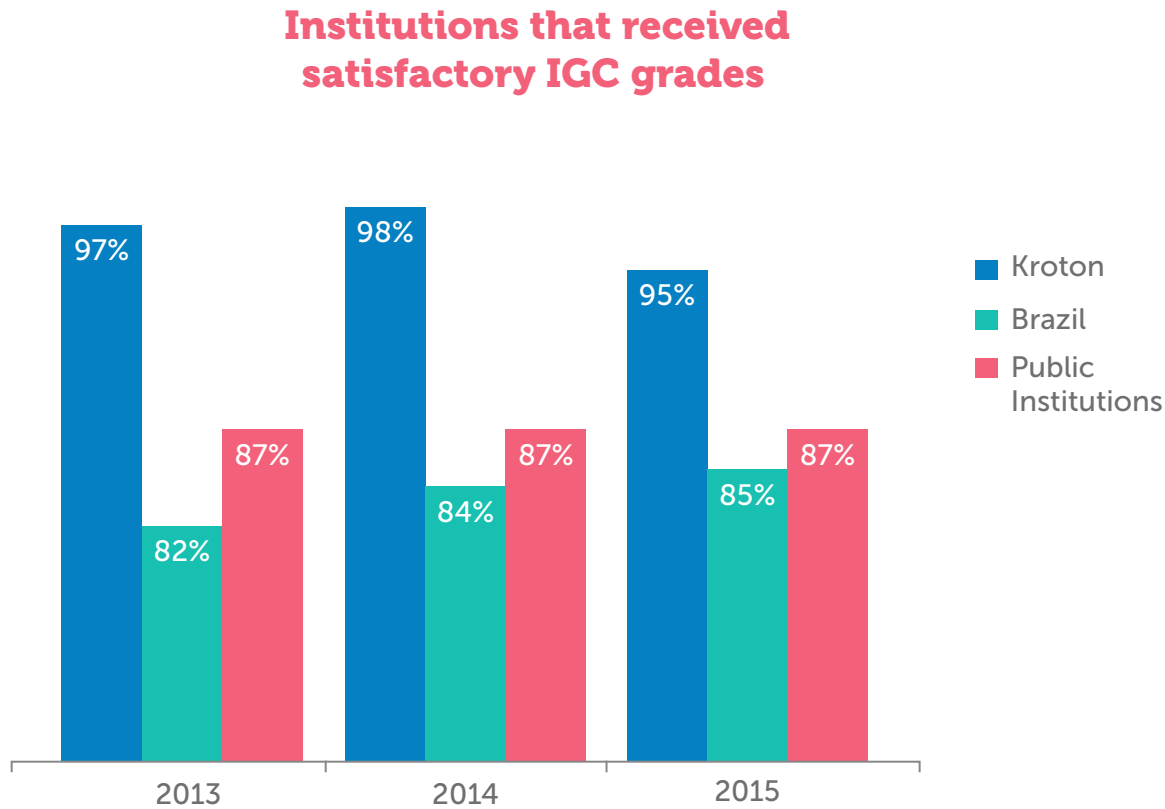


The CPC is the main indicator used by the MEC to monitor programs. It brings together various indicators, such as ENADE, IDD, Faculty and Student Perception, assessing programs in different areas each year. In 2015, when the last results were announced, Kroton obtained 87% of courses with a satisfactory CPC. By only analyzing the brands that have been in the group for longer, the CPC obtained reached 94%, which is also higher than the indicator for public institutions (92%)

### Development in CPC

		Kroton	Brazil	Public IES
<b>Health and Agricultural Sciences</b>	2007	64%	75%	88%
	2010	74%	79%	88%
	2013	84%	89%	92%
<b>Exact Sciences, Engineering and Degrees</b>	2008	51%	71%	79%
	2011	90%	86%	87%
	2014	91%	88%	91%
<b>Applied Social Sciences and Human Sciences</b>	2009	58%	66%	81%
	2012	94%	86%	86%
	2015	87%	89%	92%

The General Course Index (IGC) gives a grade to the Teaching Institution as a whole, considering the quality of its undergraduate and postgraduate programs. In 2015, the last published results, more than 96% of the Institutions in the group had a satisfactory grade.



## Institutional Assessment

### GRI G4-PR5

At the same time, we also have our own institutional assessment system, the AVALIAR. Through it, we ask students, teachers, program coordinators and technical-administrative staff about the quality of our work in various aspects, from the service to the infrastructure of our units.

It is carried out on an annual basis, and provides important information on several fronts of our operations, showing where we can continue to improve. As such, we have been able to deliver even better-quality education to our students.

The AVALIAR monitors three key indicators to measure Kroton’s quality, including:

- **Program Quality Index (IQC)** - considers the indicators of the teaching-learning organization, the performance of the teacher/tutor and the performance of the program coordinators;
- **Infrastructure Quality Index (IQF)** - considers the indicators of the virtual environment, library, computer lab, classroom and common areas and,
- **Institution Quality Index (IQI)** - considers the indicator for student services and the indexes of program and of infrastructure quality.

### Kroton Average in the AVALIAR

Index	IQC	IQF	IQI
ON-CAMPUS	3,7	3,4	3,3
DL	3,9	3,8	3,4

In addition to AVALIAR activities in 2016, we also delved into a discussion of how we define academic success at Kroton, which led to the development of 94 internal indicators capable of measuring our success in three specific moments of the student’s life: access, engagement and learning. We will, over the next few years, monitor these indicators and steadily improve them.



Credit: iStock





# Social Responsibility: improving people's lives

Here at Kroton we believe in the power of transformation through education. For this reason, we work in a broad manner with social responsibility, consistent with our position in the educational market in Brazil and in the world. Our projects benefit communities throughout Brazil and count on the engagement of thousands of employees and students, which reinforce the mobilization potential of the Company to transform lives.

Since 2014, our Social Responsibility Committee defines and follows the strategy of working with society to develop transformational programs, carried out on a large scale, with high impact and aligned to the education business.

## Social programs

### GRI G4-SO1

#### Initiatives that improve the lives of Brazilians

Kroton promotes actions that directly improve the life, well-being and development of Brazilians, through initiatives developed in all its educational units and DL centers.

In 2016, our Higher Education units and Distance Learning Centers carried out more than 2,300 social projects, which benefited more than 2.3 million people. These measures directly involved the students, who, in addition to working to improve the society in which they live, were able to develop their skills in line



Mãos Amigas project of college of Nursing - Anhanguera São José dos Campos  
Credit: Kroton Collection



Assistance to the community of Vila Esmeralda, in Tangará da Serra, MS - Unic Tangará da Serra  
Credit: Kroton Collection



The Social Health Education Project takes care of the community - Fama Macapá  
Credit: Kroton Collection



Assistance to people with disabilities in the Dentistry Clinic - Uniderp Agrárias  
Credit: Kroton Collection



Community service during the Social Responsibility Campaign - Unopar DL Center.  
Credit: Kroton Collection

with learning practices and strengthen their citizenship training process.

Among the social programs developed, we highlight the 'Solidarity Hazing', an initiative to mobilize and welcome freshmen, which encourages, instead of customary violent practices, their involvement in social actions from the start of their university life.



November Blue Pet Campaign at the Veterinary Clinic - Uniderp Agrárias  
Credit: Kroton Collection

In 2016, the Hazing had 96,992 students doing projects relating to the 17 UN Sustainable Development Goals. Through this, we demonstrate to our students since their first-class day our concern with the sustainable development of society.

Our initiatives have favored more than 400 social organizations, hospitals, state schools and other institutions across Brazil, ranging from the donations of books and other basic items to environmental education programs, health prevention, human rights lectures, and workshops for children.





Community service in the Solidarity Hazing - Anhanguera Santa Bárbara D'Oeste.  
Credit: Kroton Collection



Zika Zero Campaign in the Solidarity Hazing - Uniderp Matriz  
Credit: Kroton Collection

Another action worth mentioning is the Social Responsibility Campaign, an initiative that is part of our academic calendar and involves all the units and several programs in different areas in a week of free community-oriented activities. In 2016, we reached 219,300 people, with initiatives in the areas of education, health, culture and environment.

In 2016, we also held on the National Day to teach people about the 'Aedes Aegypti' Mosquito and the Zika Campaign, which reached around 1.7 million people. We were involved in collecting 60 tons of food, donated to various organizations fighting hunger and poverty.



Social Responsibility Campaign at Santa Fe Nursery, Campo Grande, MS - Uniderp Matriz  
Credit: Kroton Collection



Social Responsibility Campaign in São João Bosco Asylum in Tiradentes, Campo Grande, MS - Uniderp Matriz  
Credit: Kroton Collection

## Support and promoting culture and education

In 2016, Kroton also benefited social projects and programs through the support via the incentive laws, such as the Sports Incentive Law, the Municipal Fund for the Rights of Children and Teens, the National Program to Support Oncological Care, the Elderly Laws, the Audiovisual, Rouanet and the National Support Program for Healthcare of Disabled People Incentive laws.

Almost 2.5 million reais were invested in social and cultural initiatives, highlighting:

- *Sport for a Better World Project*, run by the Brazilian Institute of Excellence in Sport & Culture, which encourages sport among children and teens in Minas Gerais;
- Cancer Hospital in Barretos, a national benchmark in treating the illness;
- Association to Combat Cancer of Central Brazil, which works on campaigns promoting the early diagnosis of cancer;
- Márcio Cunha Hospital, benchmark in highly complex care for the 800,000 inhabitants of 35 municipalities in the east of Minas Gerais;
- Cherubins Association, which serves about 200 children, teens and young people in socio-economic vulnerability, with art-education activities;



Cherubins project  
Credit: Facebook



Cherubins project  
Credit: Facebook

- Savassi Festival, which brings jazz and instrumental music to various Brazilian cities. In 2016, the Festival was supported by Kroton and 20,000 people attended it. During the event, the band Frics, formed by students from the Centro Educacional Aprendiz, partner school of the Pitágoras Network in Barbacena (MG), and the band 19 Miles, formed by students from the Espaço Aberto School, partner of the Pitágoras Network in Fortaleza (CE), played Beatles classics with the Ouro Preto Orchestra. Both bands won the Beatles Symphonic Cultural Contest, held by the Pitágoras Network in commemoration of its 50 years of history; and,



- Londrina International Music Festival, a traditional event that has been held for almost four decades and that offers musical education courses. With the presence of around a thousand young musicians from all over Brazil, of various age groups and social layers, engaging in social projects that benefit from the continuity and gratuity of the courses offered.



ORCHESTRA SYMPHONY JOVEM formed by young musicians of the following socio-cultural projects: Guri Project (SP), Social Action for Music of Brazil (RJ), Villa Lobos Orchestra - São Francisco de Assis Cultural Institute (RS), Young Orchestra Paquetá (RJ), String Orchestra of the Surucucu Grotto (RJ). Soloist: Marco Antonio de Almeida CORO DO 36º FIML Conductor: Mariana Farah Soloist: Rosana Lamosa Conductor: Josep Caballe Domenech - (null / 07 - Cathedral)

Credit: Elvira Alegre e Rubem Vital <http://fml.com.br/37/fotos36.asp>

## Accessibility

### Inclusion as a principle

Respect for diversity is one of our core values, serving as a guide for our mission to improve people's lives. That is why we are continually dedicated to promoting inclusion and respect for people in our educational institutions, developing measures aimed at the accessibility of our special education students (which includes people with disabilities, global developmental disorders and giftedness).



Credit: iStock

We always seek to ensure equal conditions in the access, completion and conclusion of studies, promoting an inclusive culture based on four pillars:



## Accessibility Pillars

### Architectural Accessibility



Breaking down of physical barriers within academic spheres. The most common examples of architectural accessibility are the ramps, adapted toilets and elevators, and tactile flooring.

### Attitude Accessibility



Ability of the student to identify himself/herself as an integral part of the community, free of prejudice and discrimination. The most common example is communication campaigns that seek to develop an inclusive culture, as well as ongoing training for employees.

### Digital Accessibility and Communications



Communication without obstacles, which allows direct dialogue between students and teachers. The most common examples are the hiring of Brazilian sign language interpreters (LIBRAS), the use of programs through computers and other tools of supporting technology.

### Pedagogical Accessibility



Use of study techniques that enable learning in specialized education. The most common examples are communication boards, printed and enlarged texts, Software Amplifiers and screen readers and alternative communication.

Our Special Education student receives Specialized Educational Assistance (AEE) from the selection process until they have finished their course. This service is provided by our Inclusive Special Education Center (NUEEI).



We also sought to strengthen the inclusive culture within the Company through three courses aimed at the accessibility offered to teachers at Kroton University<sup>2</sup>: Basic Sign Language, Inclusive Education Training and Audio-description Training. In 2016, we trained 10,490 collaborators on these topics.

## Supporting anyone who wants to study

### Installment Plans and Access to Education

At Kroton, we know that one of the essential measures to reduce social and regional inequalities in Brazil is to increase access to quality Higher Education.

With this objective, the MEC has implemented several programs that encourage students to attend Higher Education, either by financing tuition fees or by offering scholarships. From these programs, at Kroton we offer:

- **The 'University for All' Program (Prouni):** Created in 2004, it offers scholarships in private institutions to students from lower-income families. Currently, we offer only full-time scholarships.
- **National Program for Access to Technical Education and Employment (Pronatec):** Ended in 2016, it reached, since its inception in 2013, 64,000 students, with 30,000 graduated, have studied in 49 programs in 89 units at Kroton. At the end of the year, our last Pronatec classes graduated, with 846 students in 13 different units.
- **Student Financing Fund (FIES):** It offers students at private higher education institutions the opportunity to finance their course. At the end of 2016, 191,400 of our students were using the Fund.

To ensure that all government requirements for using these benefits are met, we maintain a specific sector to manage those programs. In addition, we have strong governance in the management of these policies and are fully in line with Brazilian legislation - which includes periodic audits by the Ministry of Education.

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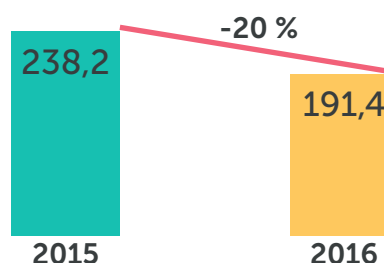
<sup>2</sup> Learn more about Kroton University, our Corporate University, at the Commitment to our employees, Kroton University: investing in our employees, on page 78.

## Private Special Installment Plan

In 2015, the Brazilian government changed the rules to qualify for FIES, including the requirement of a minimum score on ENEM and increasing the income and program restrictions. This made it harder for students to obtain funding and drastically reduced the number of students using the program.

### Students with access to FIES (thousands)

The difficulties in accessing FIES meant that the number of Kroton students with access to finance dropped by 20%.

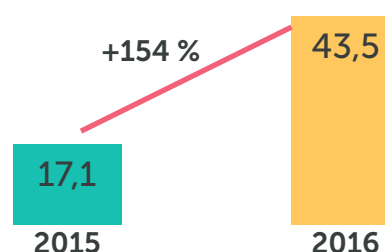


In response to this restriction, we have created an alternative for our new students who need financing: the Private Special Installment Plan (PEP). Started in 2015, the Program has become a major differentiating factor for Kroton, offering pre-approved and interest-free installments, with payment only after graduation, without the need for the student to have a bank account.

The program has two types - PEP 30 and PEP 50 - through which the student can finance 70% or 50% of their program, respectively.

### Students with access to PEP (thousands)

By the end of 2016, the number of students with access to the PEP at Kroton was 43,500, representing 5% of all undergraduate students. The 154% growth shows the importance of this program for students who do not have access to FIES anymore.



## Scholarships and Insurance

In addition to funding, we also have programs that offer scholarships to special groups of students. Among these scholarships, we highlight:

- **EducaMais:** offering scholarships of up to 75%, directed at students selected by the Educare Institute;
- **Corporate Director Scholarship:** given in accordance with the local strategy of the unit directors, aiming to increase their influence, enrollment, retention and quality;
- **Transfer Scholarship:** awarded to students from other universities;
- **Company Agreement:** aimed at employees of companies affiliated to Kroton;
- **Santander University Scholarships:** through a partnership with Banco Santander's International Mobility Program, we offer scholarships at international universities. In 2016, they included 39 students and two teachers, who had the opportunity to study in countries like China and Spain.

Starting in 2016, we began to offer optional educational insurance, which guarantees students the payment of up to six tuition fee payments in case of involuntary loss of employment. To have access to the benefit, the student must take out the insurance and, in the event of loss of income, prove employment for at least 12 months.

## Support for State Education

**Aliança Brasileira pela Educação (Brazilian alliance for education)**

**Promoting quality in the state run network**



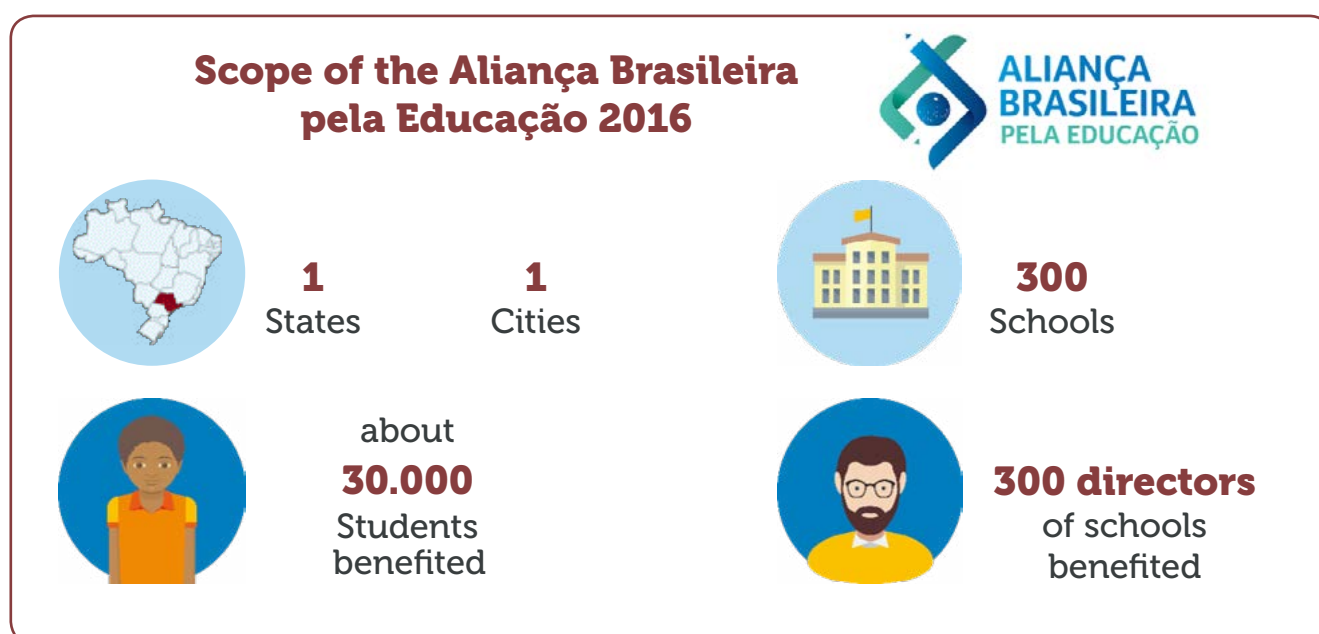
Credit: Kroton  
Collection

Our main Social Responsibility initiative in 2016 was the launch of Aliança Brasileira pela Educação ("Brazilian Alliance for Education"), a project created with the purpose of developing education, not only within our Units, but throughout Brazil. The Alliance has the mission of contributing to improving Brazilian state schools, with a focus on primary and secondary education, through an Inter-Sectoral Alliance - between Government, Companies and Foundations - with Kroton as the articulator.

Its main focus is to strengthen the leadership of the municipal and state run school directors, responsible for promoting transformation that impacts student learning. For this, we propose to hold School Directors' Forums, systematic monthly meetings to promote the exchange of experiences and best practices.

The Aliança Brasileira pela Educação was launched on August 31, 2016, in an event held in partnership with the São Paulo State Department of Education. The ceremony was attended by over 400 guests, including representatives of state government, MEC and public-school directors.

By the end of 2016, we had held eight Forums in the city of São Paulo, attended by more than 300 state school directors who, together, serve more than 300,000 students. The meetings also had 23 volunteers from Kroton.



On December 7, 2016, the Alliance was presented to the Brazilian authorities at a public hearing in the Federal Senate. Our plan is to gradually expand its reach to other regions by 2017, not only reaching state schools, but also municipal schools in other Brazilian states.

## Pitágoras Foundation

### Advanced management for state schools

The Pitágoras Foundation, Kroton's main partner in the Aliança Brasileira pela Educação, aims to contribute to the improvement of Brazilian public education, especially in municipal networks. For this, it has developed an Integrated Management System (SGI), a management technology that optimizes the efforts of students, teachers and leaders with a focus on improving the quality of education.

The Foundation guides how SGI is implemented within the public-school system and offers technical support over two years. The main result of this application is a major advance in students' learning, especially in their reading, writing, calculation, oral expression, problem solving and active learning skills.

Formed in 1999 as a third-party sector organization, the Pitágoras Foundation has already benefited 30,000 teachers and more than 736,000 students in 12 Brazilian states.

The results of SGI's participation within the municipalities are clear, with marked improvement in the MEC Indexes.



Students from Pitágoras Cidade Jardim School, Belo Horizonte (MG).  
Credit: Kroton Collection

## Scope of the SGI



**12**  
States

**111**  
Cities



**1.131**  
Schools



**736.000**  
Students  
benefited



**3.050**  
Teachers  
certified

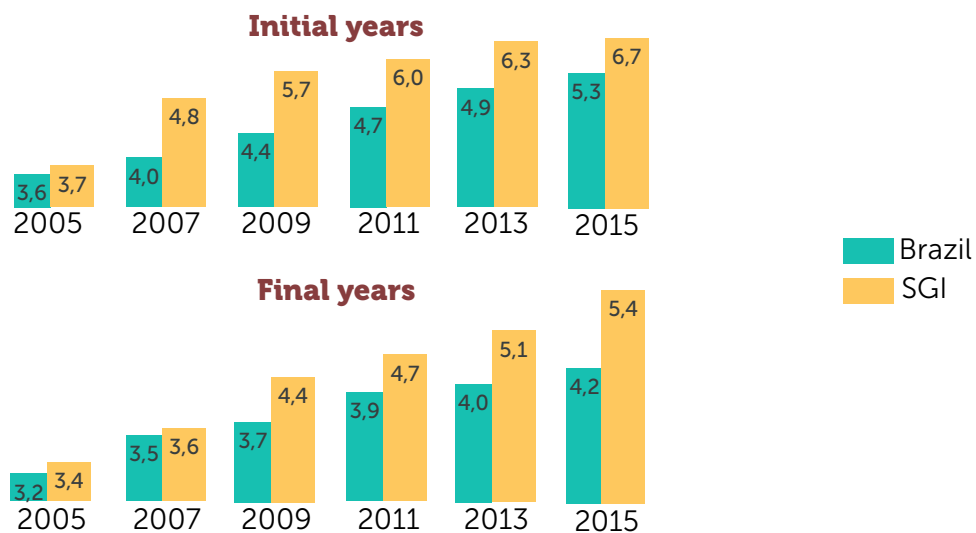


**30.064**  
Teachers  
benefited

The schools that implemented the SGI showed better results in the Primary and Secondary Education Development Index (IDEB), measured by the MEC every two years, than other state schools in Brazil.

## Impact of SGI

Changes of IDEB in Brazilian public schools and in schools that adopted the SGI





After the SGI was implemented, the Pitágoras Foundation applied the Advanced Management Program (PGA) to promote the development of the management system in the municipalities affected. It aims to promote the SGI Excellence criteria among educators, instruct schools and education departments to improve their performance and develop an organizational knowledge of the municipal network.

## Conspiração Mineira pela Educação, an alliance for education in Minas Gerais State

The Aliança Brasileira pela Educação project was based on a successful experience carried out in Minas Gerais state. The Conspiração Mineira pela Educação, coordinated by the Pitágoras Foundation, has been active for more than 10 years in promoting state school directors' meetings and alliances on behalf of the state education.

The project has already reached 1,353 schools, affecting more than 1 million students. 135 director forums were held, discussing topics such as the pacification of schools, the motivation of students and teachers, integration of families and the improvement of learning indicators.

Due to the time it has been operating and its effectiveness, the Mineira pela Educação has already generated proven results, with a lasting legacy in the places where it was used.

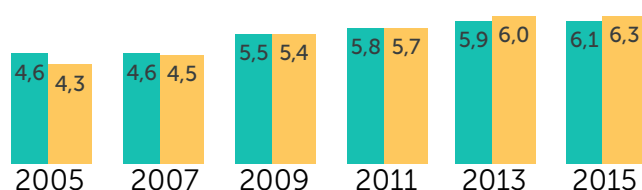


The schools that benefited from the work of the Conspiração Mineiro pela Educação ("State of Minas Gerais Conspiracy for Education") had better results in the Primary and Secondary Education Development of Basic Education Index (IDEB), measured by the MEC every two years, than other state schools in Minas Gerais.

## Conspiração Mineira pela Educação

Evolution of the IDEB in the public schools of Minas Gerais and in the schools affected by the State of Minas Gerais' Conspiracy for Education

### Initial years



### Final years



Minas Gerais  
Conspiração Mineira pela Educação



The Preparation Platform for ENEM Exam can be accessed through the link <http://www.trilhadoenem.com.br>

## Access to knowledge

### Trilha do ENEM: Preparatory platform for ENEM exam

The Trilha do ENEM is one of the tools created by Kroton that has had the greatest social impact, with the capacity to improve the lives of students from all corners of Brazil, launched

in 2015, it seeks to develop students who are preparing for the National High School Exams (ENEM).

The initiative consists of a website developed specially to facilitate the studies of people who intend to sit the ENEM, completely free of charge, whether they are public or private schools throughout Brazil.

Based on our adaptive Learning methodology<sup>3</sup>, it gives simulation exams to students enrolled in the platform, identifies their main deficiencies, and delivers the necessary materials to improve their

<sup>3</sup> Adaptive Learning is one of the unique factors of our teaching model, KLS 2.0. Learn more about it in the section on Responsible and Quality Education - Adaptive Learning on page 29.

exam performance. Throughout the course of their studies, we can follow their development and point out what they need to do to become dedicated.

The student that has been enrolled in the platform also has access to live video lessons, taught by teachers who have become celebrities on Youtube, due to their ability to pass on the content in a dynamic and extrovert manner, capturing the attention and stimulating young people in their study process. Shortly after the ENEM exam, we correct it in real-time. The Preparation Platform for ENEM Exam, as such, enables students who do not have the conditions to take a pre-university course, to study through our platform.

In all, we have had 260,000 people who benefited from the Preparation Platform for ENEM Exam, accessing interactive content, available using the highest technology for adaptive learning, and who used our advanced education technologies to prepare for this decisive moment in their lives entry into Higher Education.

### Differentiating Factors of



#### Results



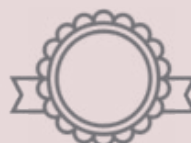
Exams using the same methodology as the ENEM, with unedited questions, all from previous exams

#### Approval Simulator



Through the simulated results, the system assesses which universities and programs the student could take

#### Gaming



Just like a game, a student can earn 65 badges depending on their progress, which encourages the study process

#### Daily



The students can record their thoughts and difficulties, and can be helped when required

## Unregulated programs and language courses

We work for the benefit of society, focusing on the management of public education, students in search of their dream for Higher Education and we provide professional and personal qualifications, through our short-term programs and languages courses offered, free of charge, in our teaching units and centers.

Thus, the whole community can benefit from the quality of our education, enjoy the resources available in our education system and be better qualified for the job market.

Among the several improvement courses available to the community, the programs with the largest number of registered students in 2016 were:

Ranking	Program Name	Type	Registered Students
1	How people management influences the future of companies	DL	6,614
2	Stimulate your entrepreneurial spirit	DL	6,444
3	Work your image in the corporate world	DL	6,369
4	Sell better to sell more	DL	6,090
5	Finance: Knowledge is the key word	DL	6,043
6	Learn how to organize your personal expenses	DL	5,884
7	First impressions last	DL	5,118
8	Managing your own business. Valuable tips for an entrepreneur	DL	5,023
9	The profile of the professional and the management model in Brazil's current economic situation	On-campus	4,087
10	Launch your project	DL	3,690
11	How to be well prepared for an interview	DL	2,626
12	Advanced Excel	On-campus	1,708
13	Basic Excel	On-campus	1,620
14	Public Speaking	On-campus	1,379
15	Administrative, Financial and Accounting Assistant	On-campus	1,216
16	First aid	On-campus	1,130
17	Intermediate Excel	On-campus	905
18	Photography Workshop	On-campus	897
19	Personal Marketing	On-campus	865
20	Public Speaking	On-campus	846
21	Doing your own makeup	On-campus	836
22	Business Coaching	On-campus	831
23	Accounting/Tax Assistant	On-campus	829
24	First aid	On-campus	748
25	Basic Excel	On-campus	744

In total, there were another 75,400 registered students who benefited from our Unregulated Programs during holiday periods.

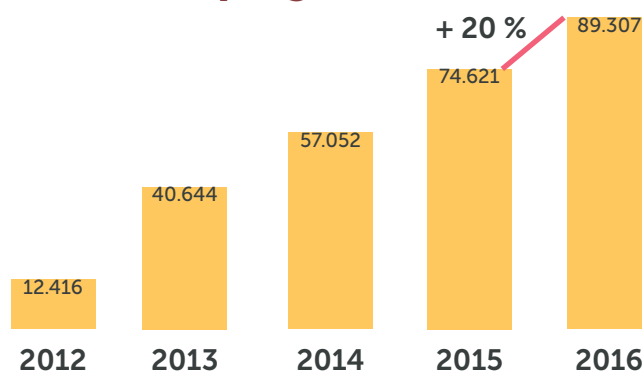
To supplement our short-term programs offered in 2016, we launched a new Unregulated Online Platform, which brings together, in a single platform, the Unregulated Programs offered by Kroton and partner companies such as the Lemann Foundation, Instituto Península, Endeavor, Education Portal and Microsoft. Launched in June, it already has over one thousand courses.



The Cursos Livres Online Platform  
can be accessed through the link:  
[www.cursoslivresead.com.br](http://www.cursoslivresead.com.br)

Our Online platform for Unregulated Programs began in 2012, with the number of accesses growing each year. In 2016, with the launch of a new portal, we reached 89,300 students.

### Number of students that accessed unregulated Kroton programs



Credit: iStock







# Environmental Responsibility

From the profile of our business, we are not direct generators of large environmental impacts - as in the case of, for example, extractive industries or sectors. Even so, we are concerned about monitoring and reducing our impacts, which are mainly related to the consumption of natural resources such as water, electricity and paper used in our operations.

Because we are a company focused on educating with responsibility, our main contribution to the environment happens through the education and awareness of all our public on the importance of preserving the environment. We even have programs dedicated to Environmental Management, which disseminate knowledge and train professionals to lead people and manage problems that involve the environment.

Our concern for the environment is reflected in the initiatives undertaken in undergraduate extension programs and in the research developed in our Graduate Programs, such as the Blue Macaw Project carried out by the Arara Azul Institute in partnership with Uniderp in Campo Grande, MS. The project was consolidated not only to promote the biological study and ecological relations of this species, but also to become one of the most recognized biodiversity conservation projects in Pantanal.



Solidarity Hazing – Anhanguera of Passo Fundo. Students planted 70 tree seedlings in the Pampa Allotment  
Credit: Kroton Collection



P.h.D Neiva Guedes, professor of Enviroment Master of Uniderp, and founder of Blue Macaw Institute.  
Credit: Kroton Collection

## Energy GRI G4-22 | EN3

### Combating the greenhouse effect

In 2016, we focused on reducing electricity consumption in our units. As such, we contributed to reducing the burning of fossil fuels and therefore minimized CO2 emissions in the atmosphere, which contribute to the Greenhouse Effect.

Among our main initiatives, we can mention:

- Installation of LED lamps in our units.
- Overhaul of the electrical networks of the units, increasing the efficiency of their facilities and reducing waste caused by faults.
- Disseminating best practices to reduce energy consumption in our units.

In 2016, our units consumed, in total, 50,344,168 kWh of energy. This was the first year that the Company conducted a real survey into its electricity consumption, which was a breakthrough in our ability to track and manage our operations. In 2015, this calculation was based on estimates, which prevents comparing the current result with those of the previous years.

## Water GRI G4-22 | EN8

### Combating waste

In 2016, we carried out a series of initiatives to reduce water being wasted in our units. Among them, we can mention:

- Installation of aerators in water taps, which spray water and reduce the volume of water used by up to 60%.
- Detection and identification of leaks by the engineering team.
- Drilling artesian wells to use groundwater.

As such, we consumed 581,354 m<sup>3</sup> of water in 2016. This was also the first year in which we measured our water consumption exactly, which hinders the comparison of this result with previous years.

## Waste

### Disposal of paper and laboratory materials

In recent years, we have reduced most of the paper used in our educational units. We achieved this by implementing one of the largest DL operations in the country and migrating our teaching material to the digital format through KLS 2.0. We also send all discarded books for recycling. Even so, in our logistics operations, we discarded 70 tons of paper throughout 2016.

We comply with all laws and regulations regarding the generation and disposal of our waste. For this, we responsibly manage all the materials we discard, but we carefully monitor those generated in our laboratories - mainly in the areas of agricultural, biological and health sciences -, veterinary hospitals, farms, clinics and first aid post.



Social Responsibility Campaign, Sustainable Beach Environmental Education Project - Pitágoras São Luís.

Credit: Kroton Collection

Laboratory waste generated in our operation can be divided into two types: chemical (which may present risks to public health and the environment because of their chemical characteristics) and infectious (which may present risks due to the presence of biological agents).

In order to correctly dispose of this waste, we rely on companies licensed and specialized in this task. In 2016, they helped us to dispose of 9.6 tons of chemical waste and 24.2 tons of infectious waste.



Credit: iStock





# Commitment to our employees

GRI G4-10 | LA1

## An engaged and efficient team

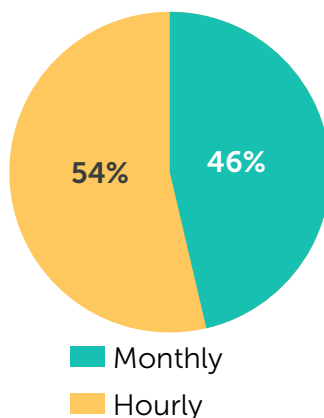
We are aware that Kroton's main resource for improving people's lives are our employees. They are those who, in carrying out their daily activities, enable our students to be adequately supported and to have access to the educational services and products needed to train them. Although we are an increasingly digital company, the delivery and commitment of employees is fundamental throughout the process. Therefore, we work to create a strong organizational culture and an environment that is conducive to personal and professional development, investing in our people management in order to offer an ever-better experience to our students.



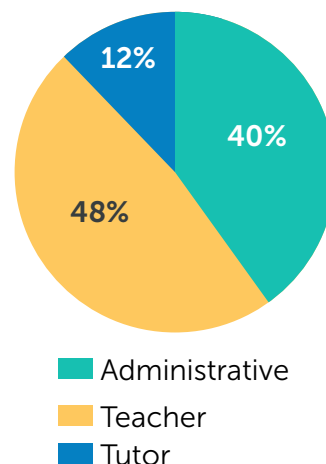
Leaders Meeting 2016  
Credit: Kroton Collection

By the end of 2016, we had **23,930 employees** - both in the administrative and academic areas. Throughout the year, we hired 7,638 new people and 9,554 left us. Because of the nature of our business, most of our employees are teachers and tutors, who are usually hired on an hourly rate.

**Employees by work contract type**



**Employees by job type**



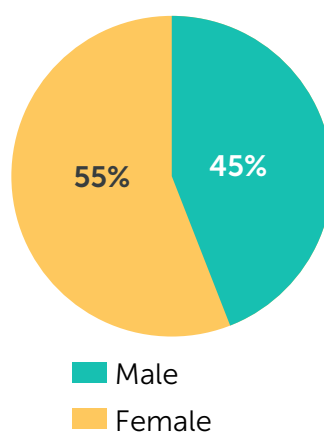
## Diversity - GRI G4-LA12 | LA13

### Ensuring equal opportunities

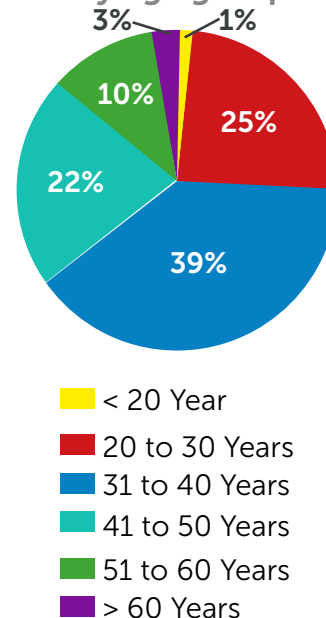
Diversity among employees is a natural part of our business. In our recruitment and promotion processes, we value meritocracy, without discriminating against gender, age, race or any other characteristic, leading to an employee base that is ready to face the challenges of a society – and its youth - which is increasingly more diverse.

### Diversity of employees

**Employ by Genders**



**By age group**



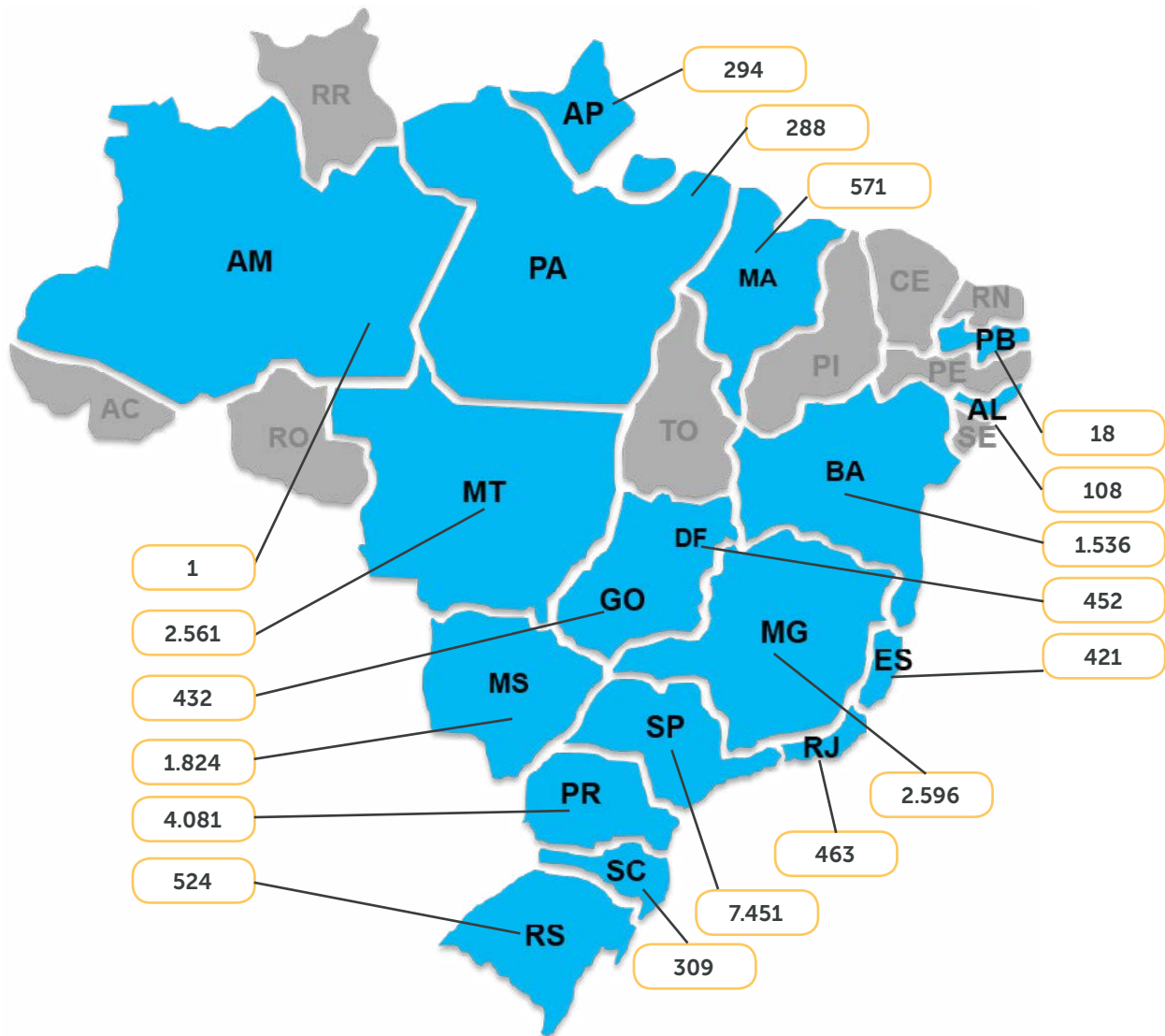
We value the diversity of gender and age among our employees. In 2016, 55% of our work contracts were with women, and 45% with men.



Considering all our units and the types of working hours, the average salary of our male employees is 60.19% higher than that of women.

From a geographical point of view, we have units and, consequently, employees spread all over Brazil.

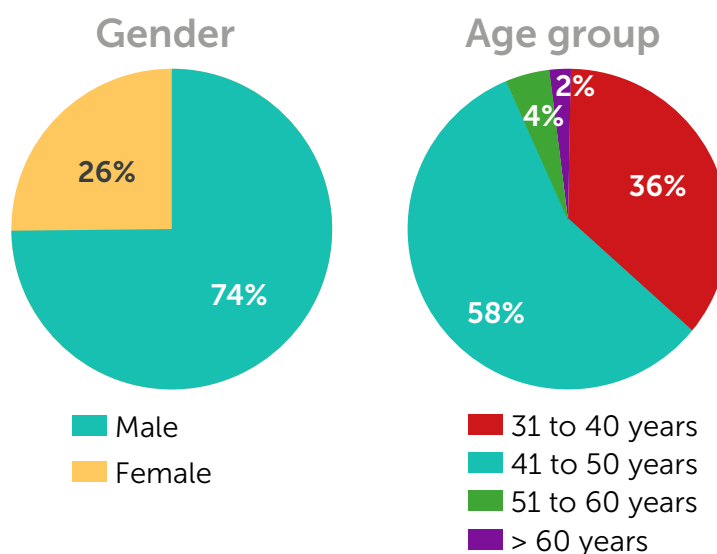
### Employ by states



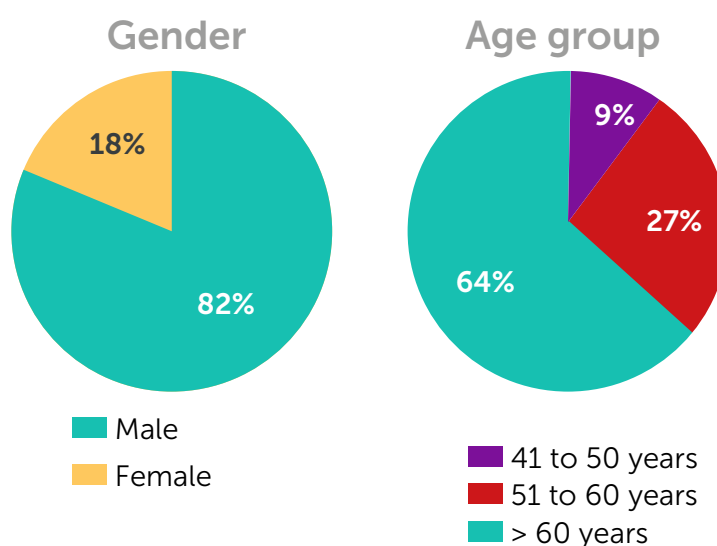
Our search for meritocracy in promotions and hiring allows this diversity to be reflected in all sectors, even in leadership positions.

We value diversity across all sectors of the organization, enabling employees of different ages and generations to work together, sharing experiences.

## Diversity in the Board of Executive Officers



## Diversity in the Board of Directors



## Training and development

GRI G4-LA9 | LA11

**Kroton University: investing in our employees**

The changes brought in with the arrival of the 21st century present a series of challenges for our operation, whether technological, teaching or financial. Therefore, we are



concerned with updating and developing our talents continuously, promoting joint growth and generating development through education.

During 2016, we trained our employees through our corporate university: Kroton University.

The courses offered to each employee are based on their career development plan, created from their field of activity and a performance analysis that identifies the skills that they need to develop in their career. In 2016, 100% of the leaders and 50% of the teachers received this type of analysis.

To develop these skills, we offer 126 courses, divided into four schools:



First class graduated of University Kroton  
Credit: Kroton Collection



**School of Culture:** It reinforces Kroton's values, principles and culture.



**School of Leadership:** It develops the leadership skills for our managers.



**Business School:** Aimed at the knowledge related to our products, business and academic model.



**School of efficiencies:** Focus on courses that improve our productivity, reduce costs and develop our operations.

In 2016, we offered 411,371 hours of training, reaching 23,760 employees. In total, we invested R\$1.7 million on their training.

Today, 93% of the programs offered by Kroton University are online, which is an advantage for a big company like ours, with employees scattered all over the country. Nevertheless, in 2016, we inaugurated the University's physical headquarters, located in the city of Valinhos (SP), where we have classrooms, offices and auditoriums to train our employees on campus.

In addition to the courses at Kroton University, we offer internship programs, leadership training and executive training, which focus on improving participants' knowledge and developing their careers.

## Remuneration and Benefits

### Rewarding employees on results



Credit: iStock

Another way of engaging our employees is by recognizing their delivery, expertise and performance through salary, variable remuneration and benefits. As such, we seek to reward their productivity and efficiency, attracting and retaining the best professionals in our Company.

**Salary:** Our pay practices are based on meritocracy, career development, and access to promotions and increases according to performance - regardless of gender, race or other human characteristics.

**Variable salary:** we offer variable remuneration for strategic positions, apart from cases provided for in a collective agreement. Every year, the professionals participating in this remuneration receive individual contracts with their rules and performance targets.

**Benefits:** our benefits respect the rules, policies and specifics of each of the regions in which we operate. Below is our policy of benefits and regional union agreements, where we offer:

- healthcare;
- dental care;
- basic food basket;
- private pension plan;
- life insurance;
- meal vouchers, and
- transportation vouchers.







# Corporate Governance

## Principles

### How we manage our operation

To ensure that our Company continues to grow over the long term, and by improving people's lives through education, we have robust corporate governance and risk management mechanisms. We follow the best market practices, with the objective of bringing reliability to internal controls, transparency of management, attention to the interests of our stakeholders and ability to generate value and return.

Since 2012, we have been part of the Novo Mercado segment of B3<sup>4</sup> which brings together companies with the best governance practices, and follow the recommendations of the Brazilian Institute of Corporate Governance (IBGC).

Among our governance practices, we highlight the following:

- Full Corporation - there is no set of controlling shareholders in charge.
- Quarterly and annual financial statements available in Portuguese and English, based on international accounting principles.
- Adherence to the Arbitration Panel to resolve corporate conflicts, which gives greater speed in solving corporate issues.



### Transparency

We have a website dedicated to Investor Relations, where we disclose our quarterly financial results, webcasts and we offer all the information that can influence our market value and the decision making of our shareholders.

Find out about our page, go to: [www.kroton.com.br/ri](http://www.kroton.com.br/ri)

<sup>4</sup> In March 2017, the São Paulo Stock Exchange, called "BM&FBOVESPA", merged with Cetip and became known as "B3".

# Structure

## GRI G4-34

### How we organize our leadership

#### Board of Directors

The Board of Directors is the highest body of leadership in our administration. It is responsible for formulating and implementing general business policies and guidelines and our long-term strategy. It is also the responsibility of the Board to define the independent auditors and oversee the management of the Executive Board.

The Council's decision-making is always done in a collegial manner. In the event of any conflict of interest, the members involved are prevented from voting or engaging in these transactions and businesses.

According to our Bylaws, the Board of Directors is comprised of 5 to 13 effective members - at least 20% independent - elected at the General Meeting for a term of two years, with the possibility of re-election.

On December 31, 2016, our Board of Directors was composed of eight members as follows:

Board of Directors (elected in 2015)	
Chairman	
Gabriel Mário Rodrigues	
Directors	
Altamiro Belo Galindo	Luiz Antonio de Moraes Carvalho*
Barbara Elisabeth Laffranchi	Nicolau Ferreira Chacur*
Evando José Neiva	Walfrido Silvino dos Mares Guia Neto
Júlio Fernando Cabizuca	-

\*Independent Directors

#### Advisory Committees


The Advisory Committees aim to support the Board of Directors in its decision making by providing specific knowledge on issues that are relevant to our business.

In addition, the committees also act as important facilitators in implementing and monitoring the policies approved by the Board.



For all functions and members of each Committee,  
access Kroton's Reference Form 2016, pages  
328 to 332 (available in Portuguese only).

As of December 31, 2016, we had the following Committees:

Kroton committees in 2016	
	Academic and Institutional
	Audit
	Finance and Human Resources
	Social Responsibility

## Board of Executive Officers

The Board of Executive Officers is responsible for strategic planning - following the guidelines approved by the Board of Directors -, for the implementation of the general policies and for the daily management of the business.

Statutory Officers are elected by the Board of Directors for a term of two years and may be re-elected or dismissed by the Board. According to our Bylaws, we must have between four to eight Statutory Officers.

On December 31, 2016, our Board of Executive Officers was composed as follows:

Statutory Officers (elected in 2016)	
Statutory Officers	Position
Rodrigo Calvo Galindo	Chief Executive Officer
Carlos Alberto B. Lazar	Investor Relations Officer
Frederico Brito e Abreu	Chief Financial Officer
Leonardo Augusto Leão Lara	Legal Officer

Executive Board	
Officers	Position
Américo Matiello Jr.	Undergraduate On-Campus & Campus Officer
Fabio Lacerda	Dir. of HR & Employability
Julia Gonçalves	Director of PPMO
Gislaine Moreno	Director of Institutional Development
Guilherme Franco	Marketing & Sales Officer
Mario Ghio Junior	Undergraduate Academic Officer
Maron Marcel Guimarães	Administrative Officer
Paulo de Tarso	Business and Innovation Officer
Roberto Valério Neto	Undergraduate DL & Centers Officer

## Fiscal Council

The Fiscal Council is an independent body of the Company whose function is to supervise the actions carried out by management and to give an opinion on our accounts and financial transactions.

The body is not permanent and must have a minimum of three and a maximum of five members (in addition to their respective alternates).

In 2016, the Fiscal Council was composed of the following members:



Fiscal Council
Antônio Lúcio dos Santos
Lucila de Oliveira Carvalho
Ricardo Scalzo

## Risk Management

### GRI G4-45

To ensure the sustainability of our business, we need to constantly monitor risk factors that can affect our operations and results. For this, we have an Internal Control area responsible for assessing and improving controls, applying compliance practices, mitigation of risks and internal audit, and which reports to Senior Management.

The members of the Board of Directors act in the process of identifying and managing Kroton's risks by participating in the Advisory Committees. In addition, the main issues and concerns reported by stakeholders are sent directly to the Board by the Company's directors.

Our risk management includes the analysis of regulations and laws that may influence our activities, as well as the projection of different economic scenarios in the short, medium and long terms.

In 2016, the main risks identified and monitored by our risk management team were as follows:

Our risk management follows the best market practices, such as the new COSO (*Committee of Sponsoring Organizations of the Treadway Commission*) and ISO31000.

To find out about all the risks in the Company's operations, access Kroton's Reference Form 2016, pages 22 to 41 and 125 to 129.



#### Risk: Technological Changes in the Educational Sector

We may have difficulty following and adapting to the constant technological changes, especially in DL. Other risks are the changing needs and technological expectations of our students and the new market standards.

**Mitigation:** We are attentive to the needs of our students and to making their studying experience easier and more accessible. For this, we have a team focused on technological innovation, strengthened from the incorporation of Studiare, a startup focused on artificial intelligence and adaptive learning.

We systematically monitor new available technologies on the market, our competitors and industry trends in order to improve our products and develop new service platforms. As of 2016, we started having a budget dedicated exclusively to the development and testing of technological innovations.



### **Risk: Amendment of Laws and Regulations in the Sector**

We are subject to various federal laws and regulations imposed, among others, by the Ministry of Education (MEC) and the National Education Council (CNE). We may be adversely affected by changes in laws and regulations, mainly relating to the de-accreditation of private educational institutions, imposition of tuition controls, restrictions on levels of profitability, teacher qualification requirements, academic and infrastructure requirements for our units, such as libraries and laboratories.

In addition, our new units must be accredited by the MEC prior to starting operations, and the courses need to be recognized in order to be able to issue diplomas and certificates to our students.

**Mitigation:** We maintain an excellent relationship with the regulatory bodies and we are attentive to comply with all the new requirements so that there are no restrictions from the MEC in our teaching operations. Before starting any operation in new units and programs, we make sure that we have

all the necessary authorizations, accreditations and acknowledgments. Through participation in forums, associations, meetings, working groups and public hearings, we have tried to anticipate any changes in the regulatory standards.

In addition, we have the Avaliar System<sup>5</sup>, which allows us to analyze, in great detail, the conditions of our units and programs, helping us to foresee possible divergences with the regulations of the official bodies.



### **Risk: Payment default and Drop out**

The increase in the levels of payment default of tuition fees by the students or in the amounts owed by the associated schools can affect our performance.

**Mitigation:** we use a variety of management tools to identify, contact, and offer renegotiation options for students and partners. We have created a credit and collection department to manage these processes and have implemented mechanisms to send text messages, e-mail and letters to the payment defaulter. In 2016, we started the Retention Program <sup>6</sup>, with the aim of reducing student dropouts by proposing practical solutions for their difficulties.

We also offer government lines of credit, such as Fies, and have created a unique and exclusive option for our students, Private Special Installment Plan (PEP)<sup>7</sup>, which allows students to pay up to

5. Learn more about the Avaliar System under the Quality of Education item on page 50

6 Learn more about the Retention Program in the item Offering the best experience: ensuring that our students complete their studies on page 39.

7 Learn more about the financing products we offer to our students, in the item: *Supporting anyone who wants to study*, on page 59.

70% of their tuition fees in installments after the end of their program, when they are qualified for the job market.



### **Risk: Loss of Quality in Teaching**

Maintaining quality education throughout our network is essential to the sustainability of our business. Losing quality could bring about a risk on our reputation and lead to student dropouts.

**Mitigation:** we have a series of programs that add value to our service, focused on academic quality and the student's experience.

We work, for example, on the continuous training of our employees through the Kroton University. The Sintonia Project<sup>8</sup> enables us to immerse ourselves in the reality of our students and the New Directors Training program develops the leadership of our teaching units. At the same time, we seek to provide unique learning and teaching resources for our students, such as KLS 2.0<sup>9</sup> and the Adaptive Learning tools.

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<sup>8</sup> Find out more about the Sintonia Project in the topic *Offering the best experience* on page 45.

<sup>9</sup> Find out more about the KLS 2.0 learning Model in the *Responsible and Quality Education* session on page 27.

## Commitment to ethics and transparency

### GRI G4-56

Ethics, integrity and transparency are fundamental principles of our organization. To ensure that our employees, suppliers and any other business partners act in accordance with our ethical guidelines, we have a Code of Conduct - available on our Institutional website and internal communication channels - in which we record, in a simple and direct manner, the behavior we expect, and also inappropriate behavior.

In accordance with our Code of Conduct, our employees must:

- Follow all laws, regulations and policies that guide our business;
- Be honest, fair and trustworthy in all our activities;
- Treat each other fairly, promoting a work environment that respects people;
- Protect Kroton's assets and information;
- Avoid conflicts of interest;
- Compete responsibly in the market;
- Seek guidance on any topic related to ethical conduct;
- Strengthen the culture of meritocracy; and
- Create and sustain a culture in which ethical conduct is recognized, valued and practiced by all employees.

At the Kroton University, we offer an online course about our Code of Ethics, compulsory training for all employees.

## Anti-corruption and compliance

### GRI G4-57 | G4-58

Upon starting at the Company, all our employees receive an Anti-Corruption Manual, which explains the most rigorous compliance rules and the concepts and responsibilities established in Anti-Corruption Law 12846/2013.



In 2016, we have made progress in improving our compliance through the improvement of our Internal Controls area, which monitors our actions in avoiding ethical deviations and disrespect of the anti-corruption law. It is supervised by the Company's Management and Audit Committee.

Through this structure, during the period covered by the Report, we attended to and reported all complaints received through the Kroton Confidential Channel (CCK) and, when necessary, made the corrective actions.



### **Kroton Confidential Channel**

It allows our employees, suppliers and business partners to contact our independent internal audit team to report situations in which our ethical values and principles are being violated or put at risk.

All complaints are treated in a confidential and impartial manner, and are vetted and answered. The identity of the complainant is preserved throughout the process. The Channel can be accessed at: <http://cck.kroton.com.br/cck>





# Business Strategy

One of our main challenges in taking our quality education and transforming people's lives into every corner of Brazil, is to manage the operations of a large educational system - the largest in the country and one of the largest in the world - without losing academic excellence and responsibility for each student enrolled in our institutions.







To achieve this, we have a mature strategy and management system, which are well-structured and monitored: the Kroton Management System (SGK).

Through SGK, we continuously develop and follow our Strategic Map, based on 21 goals aimed at generating value in the long term, as described below:



Credit: iStock

## Strategic Map

Six Pillars		21 Objectives
	<b>Finance</b>	Increase Cash Generation.
		Increase Business Results (revenues, EBITDA and Net Profit).
		Use student financing to support growth.
		Maximize return on investment.
	<b>Customers and partners</b>	Increase the student base in the Business Units through the capture, retention management and expansion of channels.
		Ensure an operationally stable, engaged and growing network of partners and centers, maximizing the generation of value and the dissemination of the corporate culture.
	<b>Products and services</b>	Expand the perception of Brand Value through the students and the market.
		Ensure that the Academic Model meets the product portfolio so that it is suitable in the qualification for employability.
		Improve the portfolio in all channels by offering exclusive, scalable and quality products and services.
		To ensure the development of the teaching model in order for it to be a benchmark in the primary and secondary education system.
		Use innovation in products and services, generating competitive advantages.
	<b>Processes</b>	Ensure inorganic growth.
		Ensure adequate, quick and collaborative Governance processes.
		Ensure integrated, stable, scalable processes that result in operational efficiency, and customer and partner satisfaction.
	<b>Skills</b>	Improve regulatory indices (IGC, CPC, ENADE, CI and CC).
		Spread Kroton Culture to all employees and partners.
		Have Teachers and Tutors who are qualified and engaged in effectively delivering the Model Academic.
	<b>Information and Technology</b>	Establish Strategic Human Capital Management by Skills.
		Ensure the stability and availability of technology solutions.
		Consolidate integrated, flexible platforms with functionalities that are appropriate to our Business Models.
		Generate, manage and use internal and market information efficiently.



To achieve the objectives of the Strategic Map, we set up a portfolio of projects, which is managed by seven of our VPs and four directors. In 2016, this portfolio carried out more than 200 projects, as shown in the table below:

Project Portfolio in 2016
• <b>239 projects</b> carried out
• 100% of activities completed.
• <b>R\$ 161 million</b> invested.

To support our decision-making process, we have Strategic Committees that hold periodic meetings to monitor the company’s indicators.

Strategic Committees in 2016
• <b>Seven strategic committees</b>
• <b>26 meetings</b> held for decision-making

## Challenges




SGK allows us to grow efficiently and gives us flexibility to quickly adapt to changes in the economic, academic, and demographic scenario with a major operation in terms of number of employees, students, operations and locations.

In 2016, with the help of SGK, we were able to meet most of the challenges and projects that we had developed for the year, as shown in the following table:






Credit: iStock

## Challenges for 2016

Strategic front	Strategic Project	Status	What was done
 Efficiency	Development of Kroton's new operational research tool to increase efficiency in the process of opening new classes.	Reached	Three of the four operational research phases were carried out, leading to an improvement in the service interface, optimizing the response time for problem solving and allowing better planning of the timetable, the allocation of teaching faculty and classes in physical spaces and on days of the week.
	Structuring of a new commercial DL model for Anhanguera units.	Reached	The new model was implemented throughout the year, its rules were aligned and its growth and productivity was encouraged through the sales and marketing model.
	Creation of the Strategic Sourcing Program to optimize expenses through the renegotiation of contracts with suppliers.	Reached	The program was divided into four waves of contract renegotiation, of which three have already been carried out. Of the total potential negotiable baseline of R\$ 1.74 billion, we have already worked on R\$ 1.42 billion (approximately 82% of the total).
 Innovation	A Program of the Student Management Department to improve the service and relationship with the students.	Reached	The new Virtual Assistant, which uses artificial intelligence to support the student, carried out about one million requests via chat, with more than four million questions responded in 2016.
	Launch of Kroton Learning System 2.0 (KLS 2.0)	Reached	Information on page 24
	Roll-out of the Canal Conecta	Reached	Information on page 42
 Growth	Development of the Retention Program	Reached	Information on page 39
	Expansion of the DL offer with the opening of new centers	Reached	We opened 232 new DL centers, reaching 910 in 2016, which represents a growth of 34% compared to 2015.
	Offer of alternatives for tuition fee installment programs for students through the Private Special Installment Plan (PEP).	Reached	Information on page 60
	Property acquisition projects, opening of new units (Green-fields) and the construction of buildings to maintain a higher level of growth.	In progress	We have an organic expansion plan involving the opening of 100 campuses across Brazil by 2020. In 2016, a new Campus in João Pessoa was opened.

In 2017, we will continue working on projects and strategic challenges, with the aim of continuing to provide our students with a solid, responsible and innovative education:

## Challenges for 2017

Strategic front	Strategic Project
 <b>Growth</b>	Offering financing alternatives for students through Private Student Financing and Installment Programs (PEP/FEP)
	Expansion and offer of new Premium DL courses
	Expansion of the campus course portfolio for the Units.
	Greenfields: Opening and management of new units in locations where Kroton does not operate, maintaining growth in its operations.
	Investment in Primary and Secondary Education, increasing share in the private schools market
	Odyssey: plan, execute and monitor the DL center accreditation process, aiming to expand Kroton's network in Brazil.
 <b>Efficiency</b>	Development of the Retention Program.
	Review of the strategy for Graduate Programs, Preparatory Courses and Unregulated Programs.
	Development of the Digital University (Student and Teacher Digital Portals).
 <b>Innovation</b>	Convergence Program: unification of Kroton and Anhanguera academic systems.
	Digital Roadmap: development of Kroton's digital ecosystem's roadmap over the next five years to increase the ability to understand and respond to changes in the technology landscape.
	Optimization of digital content offered in our courses.

## Awards: a company that makes it happen

Showing excellence in Corporate Governance, delivery of results and educational quality, we received the following awards and recognitions in 2016:

### ABRASCA

- Best value generation in the education sector.  
Brazilian Association of Shared Services
- 2<sup>nd</sup> place among the best SSCs in Brazil.

### Editora Segmento

- Winner of the '*TOP Educação*' award in the category Learning System for the Private Network for the Pitágoras Network case.
- Indicated as one of the winners of the Trusted Suppliers Award for the Pitágoras Network case.

### Época Negócios and Reclame Aqui publications

- Company of the Year in terms of Customer Service.



Credit: iStock

## Finance Monthly

- CFO Awards - Frederico Brito e Abreu mentioned among the best CFOs worldwide.
- CEO Awards - Rodrigo Calvo Galindo mentioned among the best CEOs worldwide.

## *Grupo de Líderes Empresariais (LIDE)*

- Leaders of Brazil Award in the Education category.

## **Institutional Investor - Latin America Executive Team 2016**

- Best Investor Relations - Nominated by Sell Side and Buy Side analysts.
- Best CEO - Rodrigo Calvo Galindo - Nominated by Sell Side and Buy Side analysts.
- Best CFO - Frederico Brito e Abreu - Nominated by Sell Side and Buy Side analysts.
- Best IR Professional - Carlos Alberto Bolina Lazar - Nominated by Sell Side and Buy Side analysts.
- Best Investor Day - Nominated by Sell Side and Buy Side analysts.
- Best Website - Nominated by Sell Side and Buy Side analysts.

## **IR Magazine Awards Brazil 2016**

- Grand prix of the best IR program - Large Cap.
- Best IR Executive Officer - Large & Mega Cap.
- Highest performance in a year of crisis - Large Cap.
- Best investor meeting: Kroton Day.
- Best Conference Call.

## *ISTOÉ Dinheiro*

- "Entrepreneur of the Year" Award for the CEO Rodrigo Calvo Galindo.

## **IT Mídia**

- 6<sup>th</sup> place among the 100+ Innovative Companies in IT Use.
- 1<sup>st</sup> place among Innovative Companies in the use of IT within the Education sector.

### *Estado de São Paulo Newspaper*

- 2<sup>nd</sup> place in the 'Empresas Mais do Estadão' Award, in the Education sector.

### **LinkedIn**

- 8<sup>th</sup> place in the Top Attractors LinkedIn ranking, which lists the companies most sought after to work with.

### *Negócios da Comunicação*

- Awarded as one of the Companies that Best Communicates with Journalists.

### *Top de Marcas Award*

- Unopar was recognized as the most outstanding company in the Private Education and Distance Learning sector in Londrina.

### **GQ Magazine**

- GQ Man of the Year Brazil Award for the CEO Rodrigo Calvo Galindo in the "Leadership" category.

### *Você RH Magazine:*

- Fabio Lacerda, Director of HR and Employability at Kroton, was elected one of the best HR professionals of the year.

### *Valor Econômico*

- Best Performance in the Education and Teaching Sector in the Valor 1000 Ranking.
- Best high management professional in the Education category in Valor 1000 Ranking.
- 35<sup>th</sup> place in the ranking of the most innovative companies in Brazil.
- Rodrigo Calvo Galindo, Chief Executive Officer of Kroton, elected Valuable Executive in the Education sector.





# Economic Performance

## Financial Performance

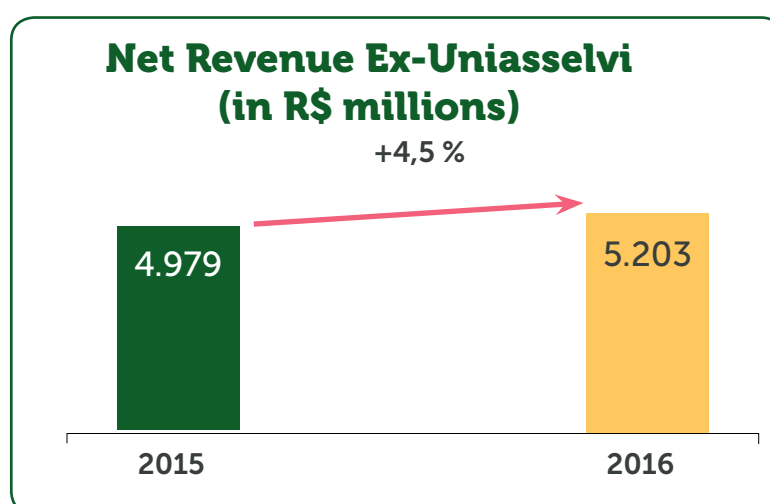
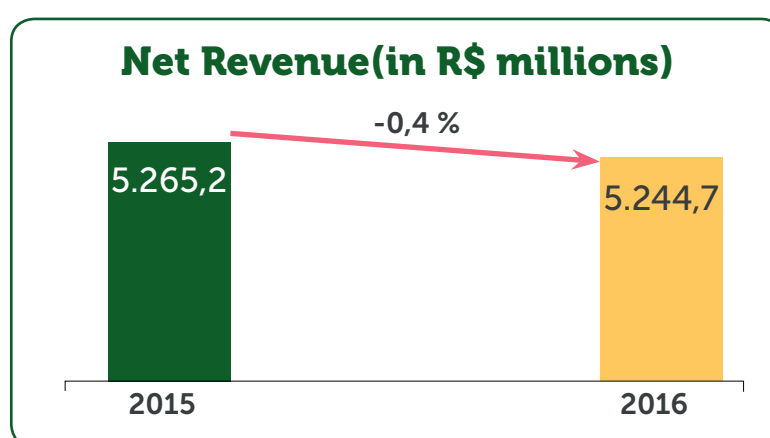
### Gross and Net Revenue

We ended 2016 with a gross revenue of R\$ 6,733.0 million, which was a similar result to that of last year. This is due to our efforts to strengthen enrollment and the re-enrollment processes and to make annual tuition adjustments.

Net revenue, in turn, stood at R\$ 5,244.7 million, slightly down by 0.4% compared to 2015.

Although the figure decreased when compared to the previous year, it should be noted that, on February 29, 2016, the group of companies named "Uniasselvi" was sold.

Disregarding the effect of these transactions in the two months in 2016 and in the 12 months to 2015, we would have presented a 4.5% increase in the Net Operating Revenue, as shown in the chart on the side:



## Cost of Goods Sold and Services Rendered

In 2016, Kroton's total costs were R\$ 2,156.8 million. This corresponds to 41.1% of net revenue, a decrease of 3.75 p.p. compared to 2015, reflecting the continuous improvement of our operations after the merger with Anhanguera and several efficiency and austerity projects in our expenses.

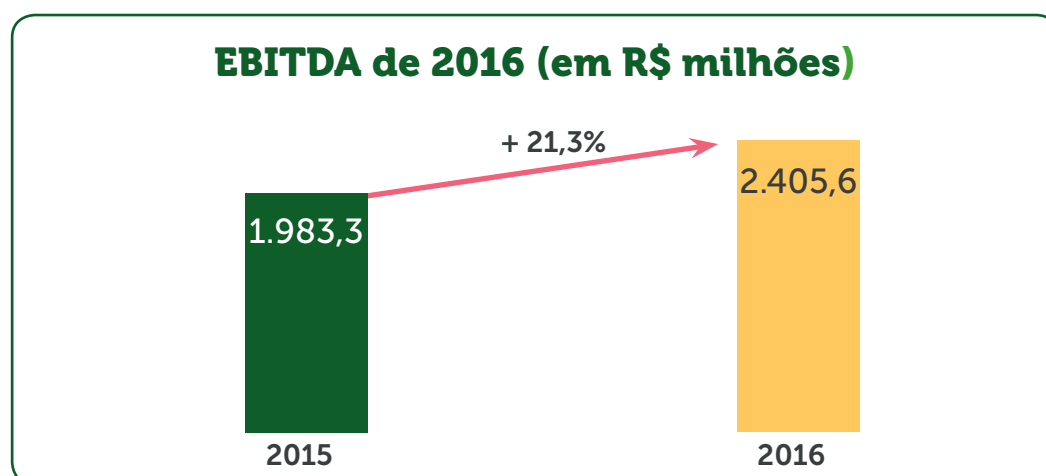
The costs of services represented 98.5% of total costs, due to the higher share of Higher Education operations.

## Gross Profit and Gross Margin

Gross profit stood at R\$ 3,087.9 million in 2016, 2.1% up on 2015. Gross margin reached 58.9%, up 1.4 p.p. on the previous year, reflecting higher efficiency in our operations.

## EBITDA

Adjusted EBITDA reached R\$ 2,300.3 million in 2016, with a margin of 43.9%, showing a growth of 2.5 p.p. compared to the previous year. The result can be explained by our efforts to increase operational efficiency and strictly control costs and expenses.



If we include non-recurring expenses and events in the calculation (which add up to a R\$ 105.3 million profit mainly due to a capital gain from the sale of Uniasselvi), EBITDA for 2016 would be R\$ 2,405.6 million, with a margin of 45.9%, up 8.2 p.p. on 2015.

## Debt

Kroton closed 2016 with a net cash position of R\$606.1 million, a reversal from the net debt positions recorded up to the previous year (in 2015, net debt was R\$633.5 million), which reflects the strong cash generation in the period and the normalization of the FIES payment flow, including the receipt of 25% of the FIES installments not paid during 2015 (PN23).

Debt is composed basically by the balance of the debentures issued in December 2011 and by the outstanding installment payments for the acquisitions made, including the Uniasselvi acquisition in May 2012, as well as by the debt from Anhanguera; from this balance, we deduct the amount of financial investments and cash equivalents.

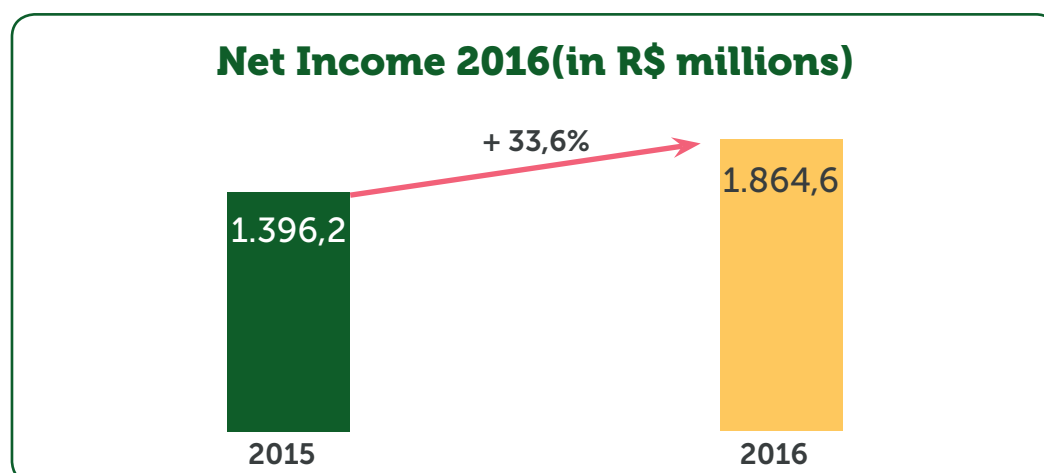
## Finance Result

The Finance Result in 2016 was positive R\$116.5 million, compared to the negative result of R\$30.9 million in 2015, which was mainly is due to the higher cash position and the resulting positive impact on interest income.

### Net Income

Net income was R\$1,864.6 million, advancing 33.6% on the prior year, with net margin increasing 9.0 p.p. compared to 2015 to 35.6%.

Meanwhile, adjusted net income (excluding the amortization of intangible assets, non-recurring expenses and the gains from the Uniasselvi divestment, already net of income tax and social contribution) amounted to R\$2,008.0 million, increasing 12.5% from 2015, with a net margin of 38.3%.



# Investments

## GRI G4-EC7

Investments made in 2016 came to R\$356.8 million, corresponding to 6.8% of net revenue, up 0.3 p.p. compared to 2015, in line with the Company's strategy to invest in the sustainability and long-term growth of its businesses.

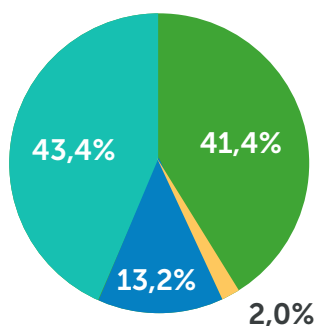
Also considering special projects, which include the acquisition (or sale) of property, the opening of new units (Greenfields) and the construction of buildings to support stronger growth rates over the coming years, total investments amounted to R\$418.8 million in 2016, corresponding to 8.0% of net revenue. This amount takes into account the sale of property during the period, which amounted to R\$ 29.1 million. Excluding this effect, capex amounted to R\$448.0 million in 2016, corresponding to 8.5% of net revenue for the year.



## Statement of Value Added (DVA)

### GRI G4-EC1

Consolidated DVA (R\$ thousands)		
	12/31/2016	12/31/2015
Revenue	5,153,697	5,015,827
Sales of Goods, Products and Services	5,244,718	5,265,058
Other Revenue	2,631	18,927
Gain on the sale of Uniasselvi	253,907	0
Provision/Reversal for doubtful accounts	(347,559)	(268,158)
Inputs Purchased from Third Parties	(731,840)	(768,897)
Costs of products, goods and services	(33,319)	(39,077)
Materials, electricity, third-party services and other	(698,521)	(729,820)
Gross Value Added	4,421,857	4,246,930
Depreciation and amortization	(401,606)	(379,871)
Net Value Added	4,020,251	3,867,059
Value Added Received through Transfer	279,926	164,663
Total Value Added to Distribute	4,300,177	4,031,722
Distribution of value added	4,300,177	4,031,722
Personnel	1,781,462	1,956,783
Direct Remuneration	1,281,710	1,736,183
Benefits	86,289	86,195
Social Charges	413,463	134,405
Taxes, fees and contributions	85,450	94,082
Federal	59,072	67,580
State	895	263
Municipal	25,483	26,239
Remuneration of third-party capital	568,630	584,723
Interest	163,470	197,655
Rentals	393,706	380,260
Copyright	11,454	6,808
Remuneration of own capital	1,864,635	1,396,134
Dividends	584,110	331,582
Retained Earnings / Loss for the Period	1,280,525	1,064,552



### Statement of Value Added in 2016

- Remuneration of Shareholders' Equity
- Remuneration of Third Party Capital
- Taxes, Fees and Contributions
- Personnel



## Capital Markets

We are a publicly-traded company with 1.6 billion shares traded on B3's Novo Mercado and over-the-counter (OTCQX) in New York. At the end of 2016, the Company's market capitalization was R\$ 21.7 billion.

### 2016 Share profiles:

- Ticker symbol in B3: KROT3.
- Over-the-counter Ticker symbol in New York: KROTY.
- 1,623,858,703 outstanding shares and 2,211,075 treasury shares at the end of 2016
- Trading in 100% of B3 trading sessions.
- Average daily volume of R\$ 129.2 million.
- Component in the Bovespa Index (Ibovespa), the Special Corporate Governance Stock Index (IGC), the Special Tag-Along Index (ITAG), the Consumption Sector Index (ICON) and the Morgan Stanley Capital International Index (MSCI Brazil), among others.



# Global Reporting Initiative (GRI)

GRI Indicator		
Profile Indicators		Response
<b>1. Strategy and Analysis</b>		
G4-1	A statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization.	Response on page 15.
<b>2. Organizational Profile</b>		
G4-3	Name of Organization	Response on page 19.
G4-4	Main brands, products and/or services	Response on page 19 and 23.
G4-5	Location of headquarters	Our head office is located in the city of Belo Horizonte (MG) and the central administrative unit is located in the city of São Paulo (SP).
G4-6	Number of countries in which the organization operates	We have no operations outside Brazil. However, one of the schools to which we sell our primary and secondary education learning system (Pitágoras) is located in Japan.
G4-7	The nature of ownership and legal form.	Response on pages 19 and 23.
G4-8	Markets served	Response on page 20.
G4-9	Scale of the organization	Response on page 20.
G4-10	Profile of the workforce	Response on page 75.
G4-11	Percentage of total employees covered by collective bargaining agreements	100% of employees.
G4-12	Description of the Company's supply chain	Kroton has a total of 6,213 suppliers, with whom R\$ 1.6 billion was spent in 2016. The main expenses were Rent (R\$ 283 million), Media and Advertising (R\$ 181 million), Construction Work (R\$ 103 million) and IT Services (R\$ 103 million).
G4-13	Significant changes during the reporting period	In February 2016, we concluded the sale of all of our equity interests in Uniasselvi, no longer controlling seven Campuses of that institution. The sale was determined by CADE, as a consideration for the approval of the merger with Anhanguera.
<b>Commitments regarding external initiatives</b>		
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	There is no formal adherence to the precautionary approach, but we promote preventive management of socio-environmental risks, as presented in the Environmental Responsibility section, on page 71.
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	Through the Anhanguera brand, we are signatories of the Global Compact, a United Nations initiative to mobilize companies to adopt 10 principles in their businesses that reflect fundamental values in the areas of human rights, labor relations, the environment and fight against corruption. In 2017, Kroton and, consequently, its subsidiaries adhered to the Global Compact.

G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization: Holds a position on the governance body; Participates in projects or committees; Provides substantive funding beyond routine membership dues.	We seek to be part of the main voluntary initiatives recognized in Brazil and abroad to promote sustainability and, therefore, we participate in ABRAES (Brazilian Association for the Development of Higher Education), ABRAFI (Brazilian Association of Philosophy of Law & Sociology of Law), ANUP (National Association of Private Universities), and ABMES (Brazilian Association of Higher Education Institution Holders).
<b>3. Identified Material Aspects and Boundaries</b>		
G4-17	List of entities included in the Company's financial statements	The full list is available in the financial statements, at: <a href="http://migre.me/wpWqP">http://migre.me/wpWqP</a> .
G4-18	The process for defining the report content and the Aspect Boundaries.	Response on page 11.
G4-19	List of all the material Aspects identified in the process for defining report content.	Response on page 11.
G4-20	For each material Aspect, report the Aspect Boundary within the organization.	Since the 2014 Matrix was revalidated, the aspects were only identified as material by the internal public.
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	There was no external consultation to identify materiality in the 2014 study, which was revalidated for this publication.
G4-22	Report the effect of any restatements of information provided in previous reports	Response on page 72.
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	There were no significant changes in the scope and limit of the aspects covered
<b>4. Stakeholder Engagement</b>		
G4-24	List of Stakeholder groups engaged by the organization	Response on page 11.
G4-25	Basis for identification and selection of Stakeholders with whom to engage Response on page XX G4-26 Organization's approach	Response on page 11.
G4-26	Organization's approach to stakeholder engagement, including frequency of engagement	Response on page 11.
G4-27	Key topics and concerns that have been raised through Stakeholder engagement and how the organization has responded to them	Response on page 11.
<b>5. Report Profile</b>		
G4-28	Reporting period	Response on page 11.
G4-29	Date of most recent previous report	January 1 to December 31, 2015.
G4-30	Reporting cycle	Annually.
G4-31	Contact point for questions regarding the report or its contents.	Response on page 11.
G4-32	Report the 'in accordance' option the organization has chosen (Core or Comprehensive), GRI index and use of external assurance.	Core.
G4-33	Report the organization's policy and current practice with regard to seeking external assurance for the report	There will be no external assurance for this report.

## 6. Governance

### The governance structure and its composition

G4-34	The governance structure of the organization, including committees	Response on page 84.
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### Role of the highest governance body in risk management

G4-45	The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities	Response on page 87.
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## 7. Ethics and Integrity

G4-56	The organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	Response on page 91.
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G4-57	The internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines (e.g. ombudsman)	Response on pages 46 and 92.
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G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	Response on pages 46 and 92.
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## Performance indicators

### Economic

#### Information on the form of economic management

Aspect	Economic Performance	
EC1	Financial assistance received from government	Response on page 105.
EC4	Financial assistance received from government	By 2016, 52% of our gross revenue came from government programs. Of this total, R\$ 2.6 billion came from FIES and R\$ 887 million came from PROUNI.

#### Aspect Indirect Economic Impacts

EC7	Development and impact of infrastructure investments and services provided	Response on page 106.
EC8	Significant indirect economic impacts, including the extent of impacts'	Response on page 42.

### Environmental

#### Information on the form of environmental management

Aspect	Energy	
EN3	Consumption of energy within the organization	Response on page 72.
Aspect	Water	
EN8	Total water consumed by source	Response on page 72.

### Social: Labor Practices and Decent Work

#### Information on the form of social management

Aspect	Employment	
LA1	Total workforce by employment type, employment contract, and region.	Response on page 75.
Aspect	Training and Education	

LA9	Average hours of training per year per employee by gender and by employee category.	Response on page 78.
LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	We do not have programs that support employee employability in preparation for career ending plans.
LA11	Percentage of employees receiving regular performance and career development reviews, separated by gender and employee category	Response on page 78.
Aspect	Diversity and Equal Opportunity	
LA12	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Response on page 76.
Aspect	Equal Remuneration for Women and Men	
LA13	Ratio of basic salary of men to women by employee category and relevant operational units.	Response on page 76.
<b>Social: Society</b>		
Information on the form of social management		
Aspect	Local Communities	
SO1	Percentage of initiatives with programs implemented to engage the local community, assess local impacts and development	Response on page 53.
<b>Social: Product Responsibility</b>		
Information on the form of social management		
Aspect	Product and Service Labeling	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	In 2016, we had three lawsuits opened because of inadequate communication of products and services. All are ongoing at the time this report was completed.
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Response on pages 45 and 50.

## Corporate Information

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RICCA RI

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iStock photo  
Kroton Collection

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