Kroton Educacional S.A.

Individual and Consolidated
Financial Statements
for the Years Ended
December 31, 2010 and 2009 and
Independent Auditors' Reports

Deloitte.

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying individual (Company) and consolidated financial statements of Kroton Educacional S.A. ("Company" or "Kroton"), which comprise the balance sheet as of December 31, 2010, and the income statement, statement of changes in shareholders' equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with accounting practices adopted in Brazil and the consolidated financial statements in accordance with the International Financial Reporting Standards - IFRSs issued by the International Accounting Standards Board - IASB and the accounting practices adopted in Brazil, as well as for such internal control as Management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing selected procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the individual financial statements

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Kroton Educacional S.A. as of December 31, 2010, and its operating performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kroton Educacional S.A. as of December 31, 2010, and its consolidated operating performance and its consolidated cash flows for the year then ended in accordance with IFRSs issued by the IASB and the accounting practices adopted in Brazil.

Emphasis of matter

As described in note 2.1.(b), the individual financial statements were prepared in accordance with the accounting practices adopted in Brazil. For Kroton Educacional S.A., these practices differ from the IFRSs, applicable to the separate financial statements, only with respect to the recognition of investments in subsidiaries under the equity method, whereas for IFRS purposes these investments would be stated at cost or fair value.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added for the year ended December 31, 2010, whose presentation by publicly-held companies is required by Brazilian corporate law and considered supplemental information by IFRSs. This statement was subject to the same auditing procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

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Audit of amounts corresponding to the year ended December 31, 2009 and the transition balance sheet as of January 1, 2009

The individual and consolidated financial statements for the year ended December 31, 2009 and the individual and consolidated transition balance sheet as of January 1, 2009, presented for comparative purposes, have been audited by other independent auditors, who issued a report thereon dated March 18, 2011 with an emphasis of matter similar to the one described above.

São Paulo, March 18, 2011

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Ismar de Moura
Engagement Partner

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(A free translation of the original in Portuguese)

Independent Auditor's Report on the Financial Statements

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

We have audited the accompanying financial statements of Kroton Educacional S.A. ("Parent Company"), which comprise the balance sheet as at December 31, 2009 and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of Kroton Educacional S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2009 and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the Parent Company financial statements in accordance with accounting practices adopted in Brazil, and for the Consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the parent company financial statements

In our opinion, the Parent Company financial statements present fairly, in all material respects, the financial position of Kroton Educacional S.A. as at December 31, 2009, and its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the Consolidated financial statements present fairly, in all material respects, the financial position of Kroton Educacional S.A. and its subsidiaries as at December 31, 2009, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil

Emphasis of matter

As discussed in Note 2.1(b) to these financial statements, the Parent Company financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Kroton Educacional S.A., these practices differ from IFRS applicable to separate financial statements only in relation to the measurement of investments in subsidiaries which has been measured and presented on the equity accounting method, while IFRS requires measurement and presentation based on cost or fair value.

Kroton Educacional S.A.

Other matters
Statements of value added

We also have audited the Parent Company and Consolidated statements of value added for the year ended December 31, 2009, the presentation of which is required by Brazilian corporate legislation for listed companies, but is considered supplementary information for IFRS. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Belo Horizonte, March 18, 2011

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" MG

Carlos Augusto da Silva
Contador CRC 1SP197007/O-2 "S" MG

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

KROTON EDUCACIONAL S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009 AND JANUARY 1, 2009
(In thousands of Brazilian reais - R$)

		Company (BR GAAP)			Consolidated (BR GAAP and IFRSs)		
ASSETS	Note	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
CURRENT ASSETS							
Cash and cash equivalents	7	13	53	5	26,168	17,264	9,114
Securities	8	-	-	-	-	393,120	115,104
Receivables	9	-	-	-	124,451	63,795	61,689
Inventories	10	-	-	-	18,922	12,350	10,720
Advances to suppliers	11	-	45	-	8,353	5,510	5,693
Dividends receivable		-	-	180	-	-	-
Recoverable taxes	12	-	-	-	15,217	5,332	-
Other receivables		-	2	1	7,811	6,864	10,802
Total current assets		13	100	186	200,922	504,235	213,122
NONCURRENT ASSETS							
Securities	8	-	-	-	7,435	-	-
Receivables	9	-	-	-	22,844	-	-
Deferred income tax and social contribution		-	-	-	10,513	10,241	12,611
Due from related parties	33	-	-	-	-	252	5
Escrow deposits	23	-	-	62	8,880	482	391
Advances to suppliers	11	-	-	-	13,395	12,494	8,763
Recoverable taxes	12	-	-	-	4,693	-	-
Other receivables		2	-	-	3,984	72	72
Investments:							
In subsidiaries	14.a)	765,427	793,415	439,231	-	-	-
Others		-	-	-	1,600		
Property, plant and equipment	15	-	-	-	223,366	167,653	140,736
Intangible assets	16	59,450	7,191	7,191	597,154	173,576	158,315
Total noncurrent assets		824,879	800,606	446,484	893,864	364,770	320,893
TOTAL ASSETS		824,892	800,706	446,670	1,094,786	869,005	534,015

The accompanying notes are an integral part of these financial statements.

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

KROTON EDUCACIONAL S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009 AND JANUARY 1, 2009
(In thousands of Brazilian reais - R$)

		Company (BR GAAP)			Consolidated (BR GAAP and IFRSs)		
LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31/12/2010	31/12/2009	01/01/2009	31/12/2010	31/12/2009	01/01/2009
CURRENT LIABILITIES							
Trade accounts payable	17	-	29	-	24,653	9,896	15,930
Borrowings and financing	18	-	-	-	34,046	5,165	5,453
Payroll and related taxes	19	-	-	-	39,891	16,363	16,305
Income tax and social contribution		84	-	-	1,775	89	188
Taxes payable		8	-	-	9,322	1,690	1,703
Advance from customers	20	-	-	-	6,089	11,951	7,374
Taxes in installments	21	-	-	-	7,090	415	773
Payables - acquisitions	22	-	-	-	4,154	3,799	12,061
Proposed dividends		-	-	129	-	-	129
Other payables	24	-	-	-	6,748	-	411
Total current liabilities		92	29	129	133,768	49,368	60,327
NONCURRENT LIABILITIES							
Borrowings and financing	18	-	-	-	57,225	9,704	12,000
Due to related parties	33	8,624	7,282	1,416	-	-	160
Reserve for tax, labor and civil contingencies	23	-	-	-	30,441	5,270	990
Taxes in installments	21	-	-	-	45,308	-	2,129
Payables - acquisitions	22	-	-	-	6,496	7,024	8,888
Deferred income tax and social contribution	13	-	-	-	1,617	465	-
Other payables	24	-	-	-	3,755	3,756	4,436
Total noncurrent liabilities		8,624	7,282	1,416	144,842	26,219	28,603
SHAREHOLDERS' EQUITY	25						
Capital		873,831	821,020	454,397	873,831	821,020	454,397
Capital reserve		17,859	14,962	-	17,859	14,962	-
Treasury shares		(24,740)	(21,436)	(21,068)	(24,740)	(21,436)	(21,068)
Legal reserve		-	-	681	-	-	681
Retained earnings (accumulated losses)		(50,774)	(21,151)	11,115	(50,774)	(21,151)	11,115
Total Company's shareholders' equity		816,176	793,395	445,125	816,176	793,395	445,125
Noncontrolling interests in subsidiaries' shareholders' equity		-	-	-	-	23	(40)
Total shareholders' equity		816,176	793,395	445,125	816,176	793,418	445,085
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		824,892	800,706	446,670	1,094,786	869,005	534,015

The accompanying notes are an integral part of these financial statements.

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

KROTON EDUCACIONAL S.A.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R$, except per share data)

	Note	Company (BR GAAP) 12/31/2010	Company (BR GAAP) 12/31/2009	Consolidated (BR GAAP and IFRSs) 12/31/2010	Consolidated (BR GAAP and IFRSs) 12/31/2009
NET REVENUE FROM SALES AND SERVICES	28				
K-12 education		-	-	120,551	103,097
Higher education		-	-	479,130	238,082
		-	-	599,681	341,179
COST OF SALES AND SERVICES	29				
Cost of products sold		-	-	(22,769)	(15,642)
Cost of services		-	-	(411,635)	(215,208)
		-	-	(434,404)	(230,850)
GROSS PROFIT		-	-	165,277	110,329
OPERATING EXPENSES	29				
Selling		-	-	(71,747)	(77,642)
General and administrative		(1,488)	(848)	(121,222)	(49,749)
Other operating expenses, net		-	-	(1,274)	(839)
Equity in subsidiaries:					
Equity in investees		(28,131)	(7,165)	-	-
Impairment of goodwill		-	-	-	(1,427)
Allowance for investment losses		-	-	-	(638)
Gain (loss) on sale of investment		-	-	(2,390)	(665)
LOSS FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)		(29,619)	(8,013)	(31,356)	(20,631)
FINANCIAL INCOME (EXPENSES)					
Financial income	30	-	-	21,177	26,229
Financial expenses	30	(4)	-	(17,007)	(6,950)
LOSS BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		(29,623)	(8,013)	(27,186)	(1,352)
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	13	-	-	(1,557)	(3,826)
Deferred	13	-	-	(880)	(2,835)
				(2,437)	(6,661)
NET INCOME (LOSS)		(29,623)	(8,013)	(29,623)	(8,013)
ATTRIBUTABLE TO					
Company's shareholders		(29,623)	(8,013)	(29,623)	(8,076)
Noncontrolling interests		-	-	-	63
		(29,623)	(8,013)	(29,623)	(8,013)
Basic loss per share - R$	31	(0.38)	(0.16)	(0.38)	(0.16)
Diluted loss per share - R$	31	(0.38)	(0.16)	(0.38)	(0.16)

Comprehensive income (loss):
The Company has no transactions requiring presentation of the statement of comprehensive income.

The accompanying notes are an integral part of these financial statements.

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

KROTON EDUCACIONAL S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R$, except per share data)

		Attributable to the Company's shareholders								
	Note	Capital	Capital reserve	Treasury shares	Legal reserve	Proposed dividends	Retained earnings (accumulate losses)	Company's shareholders' equity	Noncontrolling interests	Total shareholders' equity
BALANCES AS OF JANUARY 1º, 2009		454,397	-	(21,068)	681	12,820	(1,705)	445,125	(40)	445,085
Capital increase	25	366,623	14,585	-	-	-	-	381,208	-	381,208
Interim dividends:										
Common shares - R$ 0.06071 per share		-	-	-	-	(6,820)	-	(6,820)	-	(6,820)
Preferred shares - R$ 0.06071 per share		-	-	-	-	(6,000)	-	(6,000)	-	(6,000)
Common shares - R$ 0.0565 per share		-	-	-	-	-	(6,406)	(6,406)	-	(6,406)
Preferred shares - R$ 0.0565 per share		-	-	-	-	-	(5,645)	(5,645)	-	(5,645)
Absorption of legal reserve		-	-	-	(681)	-	681	-	-	-
Net loss		-	-	-	-	-	(8,076)	(8,076)	63	(8,013)
Treasury shares		-	-	(368)	-	-	-	(368)	-	(368)
Stock option	26	-	377	-	-	-	-	377	-	377
BALANCES AS OF DECEMBER 31, 2009		821,020	14,962	(21,436)	-	-	(21,151)	793,395	23	793,418
Capital increase	25	52,811	-	-	-	-	-	52,811	-	52,811
Treasury shares		-	-	(4,163)	-	-	-	(4,163)	-	(4,163)
Sale of shares		-	(45)	859	-	-	-	814	-	814
Exercise of stock options		-	(89)	-	-	-	-	(89)	-	(89)
Stock option	26	-	3,031	-	-	-	-	3,031	-	3,031
Acquisition of noncontrolling interests		-	-	-	-	-	-	-	(23)	(23)
Net loss		-	-	-	-	-	(29,623)	(29,623)	-	(29,623)
BALANCES AS OF DECEMBER 31, 2010		873,831	17,859	(24,740)	-	-	(50,774)	816,176	-	816,176

The accompanying notes are an integral part of these financial statements.

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

KROTON EDUCACIONAL S.A.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R$)

	Company (BR GAAP)		Consolidated (BR GAAP and IFRSs)	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax and social contribution and noncontrolling interests	(29,623)	(8,013)	(27,186)	(1,352)
Adjustment to reconcile loss before income tax and social contribution and noncontrolling interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	-	-	33,854	16,409
Allowance for doubtful accounts	-	-	28,137	18,566
Allowance for tax, labor and civil losses	-	-	405	4,280
Equity in investees	28,131	7,165	-	-
Gain (loss) on sale of permanent assets	-	-	413	6,537
Financial charges	-	-	(4,870)	2,583
Investment loss	-	-	2,390	-
Stock option	-	-	3,031	377
Changes in operating assets and liabilities:				
Increase in receivables	-	-	(72,946)	(20,672)
Increase in inventories	-	-	(6,380)	(1,630)
(Increase) decrease in other receivables	45	16	(8,637)	-
(Decrease) increase in trade accounts payable	(28)	29	10,353	(6,034)
(Decrease) increase in advances from customers	-	-	(10,168)	4,577
(Decrease) Increase in other payables	93	-	(8,734)	(4,019)
Net cash provided by (used in) operating activities	(1,382)	(803)	(60,338)	19,622
Income tax and social contribution paid	-	-	(7,661)	(8,472)
Net cash provided by (used in) operating activities	(1,382)	(803)	(67,999)	11,150
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital increase in subsidiaries	-	(386,274)	-	-
Dividends received	-	25,051	-	-
Purchase of property and equipment	-	-	(28,248)	(40,744)
Redemption of (investment in) securities	-	-	386,039	(278,016)
Acquisition of new colleges, net of cash acquired	-	-	(197,836)	(10,126)
Increase in intangible assets	-	-	(7,070)	(24,380)
Sale of subsidiaries	-	-	1,700	
Net cash provided by (used in) investing activities	-	(361,223)	154,585	(353,266)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital increase	-	381,208	-	381,208
Treasury shares	-	-	(4,163)	(368)
Borrowings and financing	-	-	74,465	1,007
Repayments of borrowings and financing	-	-	(146,704)	(4,886)
Payment of interest	-	-	(1,280)	(1,288)
Dividends paid	-	(25,000)	-	(25,000)
Intercompany loans	1,342	5,866	-	(407)
Net cash provided by (used in) financing activities	1,342	362,074	(77,682)	350,266
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, NET	(40)	48	8,904	8,150
Cash and cash equivalents at beginning of year	53	5	17,264	9,114
Cash and cash equivalents at end of year	13	53	26,168	17,264
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, NET	(40)	48	8,904	8,150

The accompanying notes are an integral part of these financial statements.

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

KROTON EDUCACIONAL S.A.

STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R$)

	Company (BR GAAP)		Consolidated (BR GAAP and IFRSs)	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
REVENUE				
K-12 education	-	-	123,818	105,850
Higher education	-	-	490,682	246,504
Recognition of allowance for doubtful accounts	-	-	(28,137)	(18,566)
INPUTS PURCHASED FROM THIRD PARTIES				
Cost of products and services	-	-	(89,667)	(56,284)
Materials, electricity, outside services and other	(411)	(848)	(86,696)	(76,704)
GROSS VALUE ADDED	(411)	(848)	410,000	200,800
Depreciation and amortization	-	-	(35,387)	(16,409)
WEALTH CREATED	(411)	(848)	374,613	184,391
WEALTH RECEIVED IN TRANSFER				
Equity in subsidiaries	(28,131)	(7,165)	-	-
Financial income	-	-	24,202	26,229
WEALTH FOR DISTRIBUTION	(28,542)	(8,013)	398,815	210,620
WEALTH DISTRIBUTED				
Personnel:				
Salaries and wages	(920)	-	(291,377)	(113,747)
Benefits	(23)	-	(11,436)	(5,133)
Severance Pay Fund (FGTS)	(55)	-	(25,102)	(15,170)
Taxes and fees:				
Federal	-	-	(17,537)	(38,214)
Municipal	(79)	-	(3,577)	(9,746)
Interest on debt:				
Interest	(4)	-	(19,751)	(6,950)
Leases	-	-	(54,836)	(24,106)
Copyrights	-	-	(4,822)	(5,567)
Interest on capital:				
Net loss	29,623	8,013	29,623	8,076
Noncontrolling interests in retained earnings	-	-	-	(63)
WEALTH DISTRIBUTED	28,542	8,013	(398,815)	(210,620)

The accompanying notes are an integral part of these financial statements.

1. OPERATIONS

Kroton Educacional S.A., headquartered in the city of Belo Horizonte, and its subsidiaries ("Kroton" or the "Company") is engaged in holding equity interests, as partner or shareholder, in companies engaged in: (a) the management of preschool, elementary, high school, adult high school, college preparatory school, higher, professional, and post-graduation education, free courses, and other related educational activities; and (b) the wholesale, retail, distribution, import and export of textbooks, course books, magazines and other publications related to preschool, elementary, high school, adult high school, college preparatory school, higher, professional, and post-graduation education, free courses, and or other related educational activities, and the licensing of school-related and pedagogical products. The Company conducts its activities through its subsidiary Editora e Distribuidora Educacional Ltda. ("EDE").

The Company is listed in BM&F Bovespa S.A. (Stock, Mercantile and Futures Exchange) under ticker symbol KROT11, where it trades its "units", which are assets consisting of 1 common share and 6 preferred shares.

The Company's management model is operated by EDE and its subsidiaries engaged in the education industry:

a) By providing regular and formal preschool, elementary, high school, higher, distance learning (online) and short-duration market-oriented (tecnólogo) education, as well as training for individuals and professional organizations.

b) By developing, distributing, and selling textbooks, newspapers, magazines and periodicals, advertising and publicity, training the technical staff of partner schools, and providing a set of solutions to public and private schools.

These financial statements were approved by the Board of Directors of the Company on March 10, 2011.

Acquisition of IUNI Educacional

After the approval of the transaction by the Board of Directors, the Company entered into a purchase and sale agreement of 100% of the shares of the IUNI Educacional Group companies ("IUNI") on March 12, 2010. The transaction price was set based on a financial valuation of current and projected earnings, based on the financial statements for the period ended June 30, 2009. The agreed conditions were as follows:

- R$133,626 in a lump sum.
- R$58,128 in installments. (a)
- 4,200,000 units of the Company. (b)

(a) Changes in working capital and debt burden verified between June 30, 2009 and February 28, 2010 were deducted from the withheld amount payable. An amount of R$30,000 was paid in June 2010, and the last portion in the amount of R$25,142 was settled in November 2010, with a discount of R$2,986 as agreed between the parties.

(b) The Company's units were issued on September 24, 2010, once the steps to merge IUNI shares held by the former controlling shareholder through the issue of new shares in EDE were completed, and finally the Company merged these shares with the resulting issuance of own shares (units).

IUNI is the controlling shareholder of the following colleges:

- União Metropolitana para o Desenvolvimento da Educação e Cultura Ltda. - UNIME LF.
- União para Desenvolvimento da Educação e Cultura de Várzea Grande Ltda. - UNIC VARZEA GRANDE.
- União de Faculdades do Amapá Ltda. - FAMA MACAPÁ.
- União das Escolas de Ensino Superior Brasileiras Ltda. - FAMA MARABÁ.
- Unic Sinop Aeroporto Ltda. - UNIC SINOP.
- Unic Tangará Sul Ltda. - UNIC TANGARÁ SUL.
- Sociedade Mantenedora de Ensino Superior de Primavera do Leste Ltda. - UNIC PRIMAVERA ANTIGA.
- Sociedade Mantenedora de Ensino e Cultura de Primavera do Leste Ltda. - UNIC PRIMAVERA NOVA.
- Unime Itabuna - Ltda. - UNIME ITABUNA.
- Unime Salvador Ltda. - UNIME SALVADOR.
- Unic Rondonópolis Floriano Peixoto Ltda. - UNIC ROO FP.
- Unic Rondonópolis Arnaldo Estevão Ltda. - UNIC ROO AE.
- Unic Tangará Norte Ltda. - UNIC TANGARÁ NORTE.

Business combinations

The Company started the business combinations of EDE's direct subsidiaries to streamline the legal, accounting, financial and regulatory procedures inherent in their activities.

The Ministry of Education enacted Administrative Rule 935/10, which was published in the Federal Official Gazette on July 23, 2010, approving the transfer of the maintenance of higher education entities between the assigning entities and the acquiring entities involved in such business combination process.

On August 1, 2010, based on appraisal reports issued by independent appraisers, EDE merged the following subsidiaries:

- AESG - Faculdade de Guarapari.
- FAC ARACAJU - Faculdade de Aracaju.
- FACTEF - Faculdade de Teixeira de Freitas.
- FADOM - Faculdade de Divinópolis.
- JAPI - Faculdade de Jundiaí.
- NABEC - Faculdade de Tecnologia de Guarapari.
- PROJECTA - Soluções Educacionais.
- SÃO FRANCISCO - Faculdade de Divinópolis.
- SEG - Faculdade de Guarapari.
- SESG - Faculdade de Guarapari.
- UNIMINAS - Faculdade de Uberlândia.

Corporate restructuring

On September 24, 2010, the Company merged the shares issued by EDE, which resulted in EDE becoming a Company's wholly-owned subsidiary.

Such reorganization resulted from the acquisition of the shareholding control of IUNI by EDE, whereby the former controlling shareholder of IUNI became the direct holder of 4,200,000 units in the Company, thus resulting in a capital increase in both the Company and its direct subsidiary EDE.

Comparability

The consolidated financial statements for the year ended December 31, 2010 include the net income of subsidiary IUNI for the 10-month period between March 1 and December 31, 2010, given that IUNI's acquisition took place on March 12. Accordingly, the reader of the financial statements should take this event into consideration.

	Balance as of 12/31/10
Balance sheet	
Current assets	79,670
Noncurrent assets:	
Long-term assets	38,532
Permanent assets	129,528
Current liabilities	80,079
Noncurrent liabilities	241,406
Shareholders' equity	(73,755)
Statement of income	
Net revenue from services	245,205
Cost of services	(161,448)
Gross profit	83,757
Operating expenses, net	(40,997)
Financial income (expenses)	(468)
Income from operations	42,292
Income tax and social contribution	(387)
Net income	41,905

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The main accounting practices applied to the consolidated financial statements are presented below. These policies have been applied consistently over all reported periods, except as otherwise indicated. The adjustments resulting from the transition to IFRSs/CPC are described in note 36.

2.1. Basis of presentation

The financial statements have been prepared using the historical cost as value basis and adjusted to reflect, as of the date of transition to IFRSs/CPC, available-for-sale financial assets and financial assets and liabilities measured at fair value through profit or loss.

The preparation of financial statements requires Management to use certain critical accounting estimates and to exercise judgment in the process of applying Kroton's accounting policies. The areas involving a higher degree of judgment and complexity, as well as those where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

a) Consolidated financial statements

The consolidated financial statements have been prepared and are presented in accordance with the accounting practices adopted in Brazil, including the pronouncements issued by the Accounting Pronouncements Committee (CPC).

The consolidated financial statements have also been prepared and are presented in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

These are the Company's first CPC and IFRS financial statements. The main differences between the accounting practices previously adopted in Brazil (previous BR GAAP) and IFRSs/CPC, including the reconciliations of shareholders' equity, are described in note 36.

b) Individual financial statements

The Company's individual financial statements have been prepared in accordance with the accounting practices adopted in Brazil ("BR GAAP") issued by the CPC and are disclosed with the consolidated financial statements. The individual financial statements present the valuation of investments in subsidiaries under the equity method, pursuant to prevailing Brazilian statutes. Thus, the individual financial statements are not considered to be in conformity with IFRSs, which requires investments in subsidiaries and jointly-controlled entities to be accounted for separately from the parent company at fair value or acquisition cost.

2.2. Consolidation

a) Subsidiaries

Subsidiaries are all entities regarding which Kroton has the power to determine the financial and operating policies, in general by virtue of holding more than half of the voting rights. The existence and the effect of potential voting rights, currently exercisable or convertible, are taken into consideration to determine if Kroton controls another entity. Subsidiaries are fully consolidated from the date in which control is transferred to Kroton and cease to be consolidated when control is no longer exercised.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets offered, equity instruments (e.g. shares) issued and liabilities incurred or assumed on the exchange date, plus any costs directly attributable to the acquisition. The identifiable assets acquired and contingencies and liabilities assumed in a business combination are initially recognized at their fair values at the acquisition date, regardless of the share of any noncontrolling interests. The excess of the cost of acquisition over the fair value of Kroton's share of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is lower than the fair value of the net assets acquired from the acquired subsidiary, the difference is recognized directly in the statement of income.

The consolidation of subsidiaries corresponds to the sum of assets, liabilities, revenues and expenses, according to their nature, with the following eliminations:

(i) Intercompany investments, reserves and retained earnings.

(ii) Bank accounts and other amounts stated in assets and or liabilities jointly held by the companies, including unrealized profits.

(iii) Identification of noncontrolling interests

The fiscal years of the subsidiaries included in the consolidation coincide with Kroton's, and the subsidiaries' accounting practices were applied consistently with Kroton's, considering the IFRSs in effect for the fiscal year ended December 31, 2010.

b) Transactions with and interests of noncontrolling shareholders

Kroton treats transactions with noncontrolling interests as transactions with owners of Group's assets. For acquisitions of noncontrolling interests, the difference between any consideration paid and the acquired portion of the carrying amount of the subsidiary's net assets is recorded in shareholders' equity. Gains or losses on disposals to noncontrolling interests are also recorded in shareholders' equity.

When the Company ceases to have control, any retained interest in the entity is remeasured at fair value, and the change in the carrying amount is recognized in income. The fair value is the initial carrying amount for subsequent accounting for the retained interest in a subsidiary, joint venture or financial asset. Furthermore, any amounts previously recognized in other comprehensive income in relation to that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This means that amounts previously recognized in other comprehensive income are reclassified to income.

c) Companies included in the consolidated financial statements

The consolidated financial statements include the accounts of Kroton and the following subsidiaries:

	Total ownership interest - %		
Consolidated companies	12/31/2010	12/31/2009	01/01/2009
Kroton's direct subsidiary-			
EDE - Publisher and controlling shareholder of	100	99.99	99.99
Indirect subsidiaries:			
AESG - Faculdade de Guarapari	-	99.99	99.99
ÁGORA - Sports schools	99.99	99.99	99.99
CBTA - Faculdade de Rio Claro (iv)	-	99.99	99.99
FAC ARACAJÚ - Faculdade de Aracajú (v)	-	99.99	99.99
FACTEF - Faculdade de Teixeira de Freitas (v)	-	99.99	99.99
FADOM - Faculdade de Divinópolis (v)	-	99.99	99.99
FATEC - Faculdade de Londrina	99.99	99.99	99.99
GK - Faculdade de Feira de Santana (i)	99.99	99.99	99.99
INADE - Examination institute	99.99	99.99	99.99
JAPI - Faculdade de Jundiaí (v)	-	99.99	99.99
NABEC - Faculdade de tecnologia de Guarapari (v)	-	99.99	75.00
ORME - Faculdade de tecnologia de Belo Horizonte	99.99	99.99	99.99
PAX - Editora Rede Católica - Publisher	99.99	99.99	99.99
PROJECTA - Educational Solutions (v)	-	99.99	99.99
PROJECTA EDE - Publisher	99.99	99.99	99.99
PSES - Faculdade de Belo Horizonte, Betim, Contagem, Gov. Valadares, Ipatinga, Poços de Caldas, São Luís and Votorantim	99.99	99.99	99.99
SÃO FRANCISCO - Faculdade de Divinópolis (v)	-	99.99	99.99

Consolidated companies	Total ownership interest - % 12/31/2010	12/31/2009	01/01/2009
SEG - Faculdade de Guarapari (v)	-	99.99	99.99
SEL - Escola de Tecnologia de Belo Horizonte	-	-	99.99
SESG - Faculdade de Guarapari (v)	-	99.99	99.99
SPES - K-12 education	99.99	99.99	99.99
SUESC - Faculdade do Rio de Janeiro	99.99	99.99	99.99
UCES - Faculdade de Vitória (ii)	-	-	99.99
UMEP - Faculdade de Londrina	99.99	99.99	99.99
UNILINHARES - Faculdade de Linhares	99.99	99.99	99.99
UNIMINAS - Faculdade de Uberlândia (v)	-	99.99	99.99
IUNI - Faculdade de Cuiabá and controlling shareholder of: (iii)	100.00	-	-
UNIC PRIMAVERA ANTIGA - Faculdade Primavera do Leste (iii)	99.99	-	-
UNIC PRIMAVERA NOVA - Faculdade Primavera do Leste (iii)	99.99	-	-
UNIC ROO AE - Faculdade de Rondonópolis (iii)	99.99	-	-
UNIC ROO FP - Faculdade de Rondonópolis (iii)	99.99	-	-
UNIC SINOP - Faculdade de Sinop (iii)	99.99	-	-
UNIC TANGARÁ NORTE - Faculdade de Tangará da Serra (iii)	99.99	-	-
UNIC TANGARÁ SUL - Faculdade de Tangará da Serra (iii)	99.99	-	-
UNIC VG - Faculdade de Várzea Grande (iii)	99.99	-	-
UNIME ITABUNA - Faculdade de Itabuna (iii)	99.99	-	-
UNIME SALVADOR - Faculdade de Salvador (iii)	99.99	-	-
FAMA MARABÁ - Faculdade de Marabá (iii)	99.99	-	-
UNIME LF - Faculdade de Lauro de Freitas and controlling shareholder of: (iii)	99.99	-	-
FAMA MACAPÁ - Faculdade de Macapá (iii)	99.99	-	-

(i) Acquisition of GK's assets

On November 19, 2009, the Company acquired 99.99% of the assets of the company GK for R$500. Said assets consist of the authorization by the Brazilian Ministry of Education - MEC to operate in the conduction of Administration, Nursing, and Production Engineering courses.

(ii) Sale of the investment in União Capixaba de Ensino Superior Ltda.

On January 4, 2010, Kroton, through its subsidiary EDE, sold 100% of its shares in União Capixaba de Ensino Superior Ltda. (UCES), located in Vitória - ES, for R$72, by means of the assumption by the buyer of debts owed by said entity. On December 31, 2009, the value of the investment was reclassified to assets held for sale, and an allowance for investment losses was recognized.

(iii) Companies originating from IUNI, acquired on March 12, 2010.

(iv) On July 26, 2010, all the shares of the education unit CBTA - Faculdade de Rio Claro, located in Rio Claro - SP, were sold. Management chose to sell CBTA, given that the unit failed to achieve a desirable growth rate, further demanding significant investments to achieve an appropriate performance and in line with Kroton's other higher education institutions.

The selling price of R$2,000 has the following maturities:

- R$1,400 upon the execution of the contract.

- R$100 on September 15, 2010, subject to the validation of the actual number of students enrolled as of August 30, 2010.
- R$200 until December 31, 2010.
- R$300 to be received until May 2013.

(v) Companies merged on August 1, 2010.

d) Individual financial statements

In the individual financial statements, subsidiaries are accounted for under the equity method. The same adjustments are made both in the individual financial statements and in the consolidated financial statements to reach the same net income and shareholders' equity attributable to the Company's shareholders. As for Kroton, the accounting practices adopted in Brazil applied to the individual financial statements differ from the IFRSs applicable to the separate financial statements only with respect to investments in subsidiaries, which are accounted for under the equity method, whereas under the IFRSs these investments would be stated at cost or fair value.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Board of Directors, which is also responsible for making Kroton's strategic decisions.

2.4. Functional currency and presentation currency

The items included in the financial statements of each of the Company's group companies are measured using the currency of the main economic environment in which the Company operates ("functional currency"). The financial statements are presented also in reais - R$, which is the Company's functional currency and its presentation currency as well.

2.5. Cash and cash equivalents

Comprise cash and bank deposits.

2.6. Financial assets

2.6.1. Classification and measurement

The Company classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets have been obtained. Management determines the classification of its financial assets upon initial recognition.

a) Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included as current assets, except those with maturities exceeding 12 months after the balance sheet date (which are classified as noncurrent assets). Kroton's loans and receivables include cash and cash equivalents, trade accounts receivable and other receivables. Loans and receivables are accounted for at the amortized cost, using the effective interest rate method.

b) Available-for-sale financial assets

Available-for-sale financial assets are nonderivative assets designated in this category or which are not classified in any other category. They are classified as noncurrent assets, unless management intends to dispose of the investment within up to 12 months after the balance sheet date. Available-for-sale assets are classified at fair value. Interest on available-for-sale securities, calculated under the effective interest rate method, is recognized as "Financial Income" in the statement of income.

c) Fair value through income or loss

The Company determines the fair value of financial instruments without an active market or which are not publicly quoted using valuation techniques. These techniques may include, where applicable, the use of transactions recently contracted with third parties, other instruments that are substantially similar, an analysis of discounted cash flows and option pricing models that make the maximum use possible of information provided by the market and the minimum use possible of information provided by the entity's management.

2.6.2. Recognition

Regular purchases and sales of financial assets classified as loans and receivables and available for sale are recognized on the transaction date, which is the date the Company agrees to buy or sell the asset. Investments are initially recognized at fair value, plus transaction costs. Financial assets are written off when the rights to receive cash flows from the investments expire or are transferred; in the latter case, provided that the Company has transferred significantly all the risks and rewards of the ownership.

2.6.3. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is recorded in the balance sheet when there is a legally enforceable right to set off recognized amounts and an intention to either settle them on a net basis, or to recognize the asset and settle the liability simultaneously.

2.6.4. Impairment of financial assets

a) Assets stated at the amortized cost

The Company evaluates at the end of each reporting period if there is objective evidence that a financial asset or group of financial assets is impaired. An asset or a group of financial assets is impaired and the impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the assets (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be measured reliably.

The criteria the Company uses to determine if there is objective evidence of impairment loss include, but are not limited to:

- Relevant financial difficulty of the issuer or borrower.
- A contract breach, such as default or delinquency in interest or principal payments.
- It is likely that the borrower will undergo bankruptcy or another financial reorganization.
- The disappearance of an active market for that financial asset due to financial difficulties; or observable data indicating that there is a measurable reduction in estimated future cash flows from a portfolio of financial assets since the initial recognition of these assets, although the reduction still cannot be identified with the individual financial assets in the portfolio, including:
  - Adverse change in the payment situation of the borrowers in the portfolio.
  - Domestic or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first evaluates if there is objective evidence of impairment.

The amount of loss is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets’ original effective interest. The carrying amount of the asset is written down and the amount of loss is recognized in the consolidated income statement. If a loan or investment held to maturity has a variable interest rate, the discount rate to measure an impairment loss is the current effective interest rate determined pursuant to the agreement The Company may measure impairment based on the fair value of an instrument using an observable market price.

If, in a subsequent period, the impairment loss is reduced and the reduction can be objectively related to an event that occurred after the impairment was recognized (an improvement in the debtor’s credit classification), the reversal of the previously recognized impairment will be recognized in the consolidated income statement.

b) Assets classified as available for sale

The Company evaluates at the end of each reporting period if there is objective evidence that a financial asset or group of financial assets is impaired. For debt securities, the Company uses the criteria set out in item a). If there is any evidence of impairment of available-for-sale financial assets, the cumulative loss, measured as the difference between acquisition cost and current fair value, less any impairment loss for the financial asset previously recognized in profit or loss, is transferred from shareholders' equity and recognized in the consolidated statement of income.

2.7. Trade accounts receivable

Correspond to amounts receivable from the sale of goods or provision of services in the ordinary course of the Company's business.

Trade accounts receivable are initially recognized at fair value and subsequently measured at their amortized cost using the effective interest rate method less the allowance for impairment losses. The allowance for losses is recognized upon billing, based on the performance of the several lines of business and the respective expected collection within up to 360 days after the due date.

The allowance is calculated based on efficiency estimates to cover potential losses on the realization of accounts receivable, considering its adequacy as determined against the performance of the receivables for each line of business, consistently with the policy of impairment of financial assets at amortized cost. Usually, in practice, they are recognized at billed amount, as adjusted by the allowance for impairment losses, if necessary.

2.8. Inventories

Stated at average acquisition cost, which does not exceed replacement cost or realizable value. An allowance for losses on obsolete items is recognized.

2.9. Property, plant and equipment

Stated at acquisition or construction cost, less depreciation.

Land is not depreciated. Depreciation of other assets is calculated using the straight line method to allocate their costs to their residual amounts over their estimated useful lives, as follows:

	Years
Buildings and improvements	25
IT equipment	5
Furniture, fixtures and facilities	10
Leasehold improvements	10
Library	10
Laboratory	10

The carrying amount of an asset is immediately written off at its recoverable value if the carrying amount of the asset is higher than its estimated recoverable value (note 2.11).

Gains and losses from sales are determined based on the comparison of the proceeds with the carrying amounts and recorded under the caption “Other operating income (expenses), net” in the statement of income.

The Company and its subsidiaries opted not to review the historical cost of property, plant and equipment items and use the deemed cost criterion, pursuant to the option prescribed by ICPC 10, 20-29 - Clarifications on the First-time Adoption of CPCs 27, 28, 37 and 43 to Property, Plant and Equipment and Investment Property, to recognize the opening balance of property, plant and equipment upon the first-time adoption of CPC 27 - Property, Plant and Equipment and ICPC 10.

The Company’s management believes that its permanent assets are stated at a value that approximates their deemed cost, given the nature of the assets and the period of their acquisition.

The Company’s management performed the periodic analysis of the remaining economic useful lives of property, plant and equipment and did not identify any significant changes that should be made.

2.10. Intangible assets

a) Goodwill

Goodwill is represented by the positive difference between the amount paid or payable and the net fair value of the assets and liabilities of the acquired entity and other equity instruments acquired/exchanged. Goodwill of subsidiaries is recorded as “intangible assets”. Should the acquirer record negative goodwill, it must be recognized in the statement of income on the acquisition date. Goodwill is tested for impairment on an annual basis, or more frequently if circumstances indicate that it has been impaired, and accounted for at cost less accumulated impairment losses, which are not reversed. Gains and losses on the sale of an entity include the carrying amount of the goodwill related to the entity sold.

The goodwill is allocated to the Cash-Generating Units (CGUs) for impairment testing purposes. The allocation is made to the CGUs or group of CGUs that will benefit from the business combination from which the goodwill originated, duly segregated in accordance with the operating segment.

b) Software and development of internal projects

Software licenses are capitalized and amortized over their estimated useful life, at the rates detailed in note 16.

Development costs directly attributable to the project and the testing of identifiable, exclusive software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- The completion of the software/project to make it available for use or sale is technically feasible.

- Management intends to complete the software/project and use it or sell it.
- The software/project may be sold or used.
- The software/project will generate probable future economic benefits, which can be demonstrated.
- Adequate technical, financial and other resources are available to complete the development and to use or sell the software/project.
- The expenditure attributable to the software/project during its development can be measured reliably.

Directly attributable costs, which are capitalized as part of the software product/project, include costs with employees allocated to the software/project development and an adequate portion of relevant direct expenses.

Development costs that fail to meet the above criteria are recognized as expenses when incurred. Development costs previously recognized as expenses are not recognized as assets in a subsequent period.

Software/project development costs recognized as assets are amortized under the straight-line method throughout their useful lives, at the rates described in note 16.

2.11. Impairment of non-financial assets

Assets having an indefinite useful life, such as goodwill, are not subject to amortization and are annually tested for impairment. Assets with finite useful life are reviewed for indicators of impairment at each balance sheet date and whenever significant events or changes in circumstances indicate that their carrying amounts may not be recoverable. When such an indicator exists, the assets are tested for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The latter is the higher of an asset's fair value less costs to sell and its value in use. Assets are grouped for impairment assessment purposes at the lowest levels at which there are separately identifiable cash flows (CGUs). Non-financial assets - except goodwill - that suffered impairment are reviewed for a possible reversal of the impairment on the reporting date.

2.12. Trade accounts payable

Trade accounts payable are payables for goods or services acquired from suppliers in the ordinary course of business.

They are initially recognized at fair value and subsequently measured at their amortized cost using the effective interest rate method. In practice, they are usually recognized at the respective billed amount.

2.13. Borrowings and financing

Borrowings and financing are initially recognized at fair value, net of transaction costs incurred, and subsequently stated at amortized cost. Any difference between the amounts raised (net of transaction costs) and the redemption amount is recognized in the statement of income over the period the borrowings are outstanding, using the effective interest rate method.

Borrowings and financing are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the loan for at least 12 months after the balance sheet date.

2.14. Allowances for tax, labor and civil losses

Allowances for losses related to labor, tax and civil lawsuits and administrative proceedings are recognized when the Company has a legal or constructive obligation as a result of past events, and it is probable that an outflow of funds will be required to settle the obligation, and its value can be reliably estimated.

The allowances are measured at the present value of the expenditures required to settle the obligation, using a before-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the obligation as a result of the passage of time is recognized as a financial expense.

2.15. Current and deferred income tax and social contribution

Tax expenses for the year comprise current and deferred income tax (IRPJ) and social contribution (CSLL). The tax is recognized in the statement of income, except to the extent that it is related to items recognized directly in shareholders' equity. In this case, the tax is also recognized in shareholders' equity.

IRPJ is calculated based on income adjusted to taxable income by additions and deductions provided for in legislation. CSLL is calculated at the current rate on income before income tax, adjusted pursuant to the prevailing legislation. Deferred income tax and social contribution are calculated on tax loss carryforwards and temporary differences between the tax bases on assets and liabilities and the carrying amounts disclosed in the financial statements. Deferred income tax and social contribution liabilities are fully recognized while the assets are pending realization. The tax rates currently set are 25% for income tax and 9% for social contribution.

Deferred income tax assets are recognized only to the extent that there is a reasonable certainty that future taxable income will be available, against which temporary differences can be offset.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax assets and liabilities are related to the income tax levied by the same tax authorities on the taxable entity or different taxable entities, where there is the intention to settle the net balances.

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

2.16. Employee benefits - share-based compensation

The Company’s officers and management-level employees are offered share-based compensation plans, settled with Company shares, and the Company receives services as consideration for the stock options granted. The fair values of options granted are recognized as expenses over the vesting period, which represents the period during which certain vesting terms and conditions must be met. The consideration is recognized in a capital reserve - stock option award, in shareholders' equity. At the balance sheet date, the Company reviews its estimates of the number of options that should be vested based on their specific terms and conditions. The impact of the revision of initial estimates, if any, is recognized prospectively in the statement of income.

2.17. Leases

Leases are classified when contracted. Leases in which the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight line basis over the lease term.

Leases in which the Company and its subsidiaries retain substantially all the risks and rewards incidental to ownership are classified as finance leases. These leases are capitalized in balance sheet at the commencement of the lease term at the lower fair value of the leased asset and the present value of minimum lease payments.

Each lease payment is apportioned between liabilities and the finance charges so as to permit obtaining a constant effective interest rate on the outstanding liability. The corresponding obligations, less finance charge, are classified in current liabilities and noncurrent liabilities, according to the lease term. Fixed assets purchased through finance leases are depreciated over their economic useful lives, as described in item 2.9, or over the lease term, when it is shorter.

2.18. Other current and noncurrent assets and liabilities

Stated at realizable amounts (assets) and at known or estimated amounts plus accrued charges and monetary variations incurred (liabilities), when applicable.

2.19. Capital

Common and preferred shares are classified in shareholders' equity.

Incremental costs directly attributable to the issuance of new shares or stock options are stated in shareholders’ equity as a deduction of the amounts raised, net of taxes.

When any of Kroton’s group companies purchases own shares of the Company (treasury shares), the amount paid, including any directly attributable additional costs (net of income tax), is deducted from the capital attributed to the Company’s shareholders until the shares are cancelled or reissued. When those shares are subsequently reissued, any amount received, net of any directly attributable additional transaction costs and the respective effects of IRPJ and CSLL, is included in the capital attributable to the Company’s shareholders.

2.20. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of products and services in the ordinary course of Kroton's business. Revenue is presented net of taxes, returns, rebates and discounts, as well as after the elimination of intercompany sales.

The Company recognizes revenue when: (a) the amount of revenue can be measured reliably; (b) it is probable that future economic benefits will flow to the company; and (c) specific criteria have been met for each of Kroton's activities, as described below. The amount of revenue is not considered to be reliably measurable until all contingencies related to the sale have been resolved. The Company bases its estimates on historical results, taking into account the type of customer, the type of transaction and the terms of each sale.

a) Sale of products

Sales revenue is recognized when all significant risks and rewards incidental to product ownership are transferred to the buyer. Therefore, pursuant to the Company's policy, revenue is recognized when the product is delivered to the buyer.

Prepayments related to sales of textbook collections are recorded under "Advances from customers" and recognized upon delivery of the material.

b) Sale of services

Revenue from services is recognized based on services actually provided as of the balance sheet date.

Tuitions and discounts vary depending on the course, the unit, and the education level. Six tuitions are charged for each six-month period, including an enrollment fee. Prepayments related to enrollment fees and tuitions are recorded under "Advances from customers" and recognized in the respective month of provision of the services.

c) Finance income

Finance income is recognized on a time proportionate basis using the effective interest rate method. When impairment is recognized with regard to a receivable, the Company reduces the carrying amount to its recoverable value, which corresponds to the estimated future cash flows, discounted at the original effective interest rate of the instrument. Subsequently, with the passage of time, interest is incorporated into accounts receivable as a contra entry to finance income. This finance income is calculated at the same effective interest rate used to calculate the recoverable amount, that is, the original rate of the receivables.

2.21. Distribution of dividends

The distribution of dividends to the Company's shareholders is recognized as a liability in Kroton's financial statements at the end of the year, according to its bylaws. Any amounts in excess of the mandatory minimum dividend can only be accrued on the date they are approved by the shareholders at a General Meeting.

2.22. Statement of value added ("DVA")

The purpose of this statement is to disclose the wealth created by the Company and its distribution during a certain reporting period, and is presented by the Company, as required by the Brazilian Corporate Law, as an integral part of its individual financial statements, and as additional disclosure of the consolidated financial statements, since this statement is not required by IFRSs.

The statement of value added was prepared using information obtained in the same accounting records used to prepare the financial statements and pursuant to the provisions of CPC 09 Statement of Value Added. Firstly, this statement presents the wealth created by the Company, which is represented by revenues (gross sales revenue, including taxes thereon, other revenues and the effects of the allowance for doubtful accounts), inputs acquired from third parties (cost of sales and purchases of materials, electric power and outsourced services, including taxes levied at the time of the purchase, effects of losses and recovery of assets, depreciation and amortization), and value added received from third parties (equity in earnings (loss) of subsidiaries, financial and other income). The statement of value added also presents the distribution of wealth among employees, taxes, charges and contributions, interest on debt, and interest on capital.

2.23. Standards, interpretations and revised standards

a) Standards, interpretations and revised standards in effect on December 31, 2010 which did not have a material impact on the Company's financial statements

The following interpretations and revised standards were issued and were in effect on December 31, 2010. However, they did not have a material impact on the Company's financial statements:

Standard	Main requirements	Effective date
Improvements to IFRSs -2009	Amendment to several Accounting pronouncements.	Effective for annual periods beginning on or after January 1, 2010.
Amendments to IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters.	Effective for annual periods beginning on or after July 1, 2010.
Amendments to IFRS 1	Additional exemptions for first-time adopters.	Effective for annual periods beginning on or after January 1, 2010.
Amendments to IFRS 32	Classification of issue rights.	Effective for annual periods beginning on or after February 1, 2010
Amendments to IFRS 2	Intragroup share-based payments settled in cash - IFRIC 19.	Effective for annual periods beginning on or after January 1, 2010.
IFRIC 19	IFRIC 19 - Extinguishing liabilities by issues of equity instruments.	Effective for annual periods beginning on or after July 1, 2010.

In August 2010, the Brazilian Securities and Exchange Commission (CVM) issued Resolution 636/10, which approves CPC 41 Earnings per Share, issued based on IAS 33 Earnings per Share. CPC 41 provides for the disclosure of earnings per share, without impact on recognition, measurement and presentation of individual financial statements. The Company adopted CPC 41 in its individual and consolidated financial statements for the year ended December 31, 2010.

b) Standards, interpretations and revised standards not yet effective and which were not early adopted by the Company

The following standards and revised standards have been issued and are mandatory for reporting periods beginning on or after January 1, 2011. However, the Company did not early adopt these standards and revised standards.

Standard	Main requirements	Effective date
Improvements to IFRSs -2010	Amendment to several Accounting pronouncements.	Effective for annual periods beginning on or after January 1, 2011.
IFRS 9 (as amended in 2010)	Financial instruments.	Effective for annual periods beginning on or after January 1, 2013.
Amendments to IFRS 24	Related party disclosures.	Effective for annual periods beginning on or after January 1, 2011.
Amendments to IFRS 1	Removal of fixed dates for first-time adopters of IFRSs.	Effective for annual periods beginning on or after July 1, 2011.
Amendments to IFRS 7	Disclosure - transfer of financial assets.	Effective for annual periods beginning on or after July 1, 2011.
Amendments to IAS 12	Deferred taxes - recovery of the underlying assets, when an asset is measured using the fair value model in IAS 40.	Effective for annual periods beginning on or after January 1, 2012.
Amendments to IFRIC 14	Prepayments of minimum funding requirements.	Effective for annual periods beginning on or after January 1, 2011.

IFRS 9 Financial Instruments (effective beginning January 1, 2013). The publication is part of the improvement project of IASB on the measurement, classification and recognition of financial instruments issued in November 2009 and replaces the part of IAS 39 related to the measurement and classification of financial assets. This standard prescribes the classification of financial assets into two categories: assets measured at fair value and assets at amortized cost, where the classification is determined at the time of recognition of the asset and in accordance with the Company's business model and features of the contracted financial instrument. Due to the features of the financial instruments currently contracted by the Company, no significant effects are expected at the time of adoption of this standard beginning January 1, 2013.

Considering the current operations of the Company and its subsidiaries, Management does not expect these new rules, interpretations and changes to have a relevant effect on the financial statements from their adoption.

The CPC has not yet issued the pronouncements and amendments related to the new and revised IFRSs above. Because of the CPC's and the CVM's commitment to keep the set of standards issued updated according to the changes made by the IASB, we expect that such pronouncements and amendments be issued by the CPC and approved by the CVM by the date they become effective.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting policies are those that: (a) are important to the portrayal of the Company's financial condition and results; and (b) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become even more subjective and complex. In the preparation of the financial statements, the Company has relied on variables and assumptions derived from historical experience and various other factors that it deems reasonable and relevant. Even if those estimates and assumptions are revised by the Company in the normal course of business, the portrayal of its financial condition and results often requires the use of judgments as regards the effects of matters inherently uncertain on the carrying amount of its assets and liabilities. Actual results may differ from estimates based on different variables, assumptions or conditions. In order to provide an understanding of how the Company forms its judgments about future events, including the variables and assumptions underlying the estimates, comments have been included that relate to each critical accounting practice described below:

a) Estimated goodwill impairment

Intangible assets with indefinite lives are not amortized, but are tested for impairment at least annually to identify if they are impaired, through a methodology known as impairment test. In order to identify if goodwill is impaired, these assets are grouped in the smallest identifiable group of assets that generates cash inflows (CGUs) and allocation is proportionally made. Goodwill is recorded at cost less cumulative impairment losses. Impairment losses are recognized in income for the year they arise, even if the conditions that caused the impairment cease to exist. As of December 31, 2010, consolidated goodwill is R$488,818 (R$91,045 and R$101,559 as of December 31, 2009 and 2008, respectively).

b) Deferred income tax

The liability method (according to the concept described in "IAS 12 - Liability Method") of accounting for income tax is used for deferred income taxes arising from temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred income tax assets are revised on each reporting date and decreased by the amount that is no longer realizable through future taxable income. Deferred income tax assets and liabilities are calculated using tax rates applicable to taxable income in the years in which those temporary differences are expected to be realized. Future taxable income may be higher or lower than estimates made when determining whether it is necessary to record a tax asset and the amount to be recorded. As of December 31, 2010, the consolidated net balance of deferred income tax and social contribution is R$8,896 (R$9,776 and R$12,611 as of December 31, 2009 and 2008, respectively).

c) Allowances for tax, labor and civil losses

The Company is a party to several lawsuits and administrative proceedings. Reserves are recognized for all lawsuits that represent probable losses. The assessment of the likelihood of loss takes into consideration available evidence, including the opinion of Kroton's in-house and outside legal counsel. Management believes that these reserves are accurately presented in the financial statements. As of December 31, 2010, the consolidated balance of the reserve for tax, labor and civil contingencies is R$30,441 (R$5,270 and R$990 as of December 31, 2009 and 2008, respectively).

d) Useful lives of long-lived assets

The Company recognizes depreciation of its long-lived assets based on estimated useful lives. The useful lives of these assets affect the impairment tests, when required.

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

a) Financial instruments use policy

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

The Company's objective in capital management is to secure the resources necessary to implement its strategy at the lowest capital cost, seeking to maximize return to shareholders.

In fiscal year 2010, the Company presented net cash intended to provide for its business cycles, as well as to implement its growth strategy. Investment decisions take into account the expected return potential.

b) Market risk

Interest rate-related cash flow risk

This risk arises from the possibility of Kroton's group companies incurring losses because of interest rate fluctuations that increase financial expenses related to borrowings and financing raised in the market. The Company continuously monitors market interest rates with the objective of assessing the need to hedge against the risk of volatility in these rates.

Interest rates for borrowings and financing in current and non-current liabilities are as follows:

	12/31/2010	%	12/31/2009	%	01/01/2009	%
Borrowings and financing:						
Extended Consumer Price Index (IPCA)	10,911	11.9	13,842	93.1	16,606	95.1
Monetary unit of BNDES (UMBNDES)					847	4.9
Interbank deposit rate (CDI)	74,617	81.8	-	-	-	-
Other	5,743	6.3	1,027	6.9	-	-
	91,271	100.0	14,869	100.0	17,453	100.0

c) Credit risk

The Company's and its subsidiaries' sales policy is closely related to the level of credit risk that they are willing to assume in the ordinary course of their businesses, limited to Federal Government rules (Law 6870/99, which provides for total school annual tuitions). Enrollment for the next school year is blocked whenever a student is in default with the institution. Possible default is minimized by diversifying the receivables portfolio, selecting students, and monitoring collection deadlines. The Company and its subsidiaries have recognized an allowance for doubtful accounts totaling R$58,247 corresponding to 28.21% (2009 - R$24,284, corresponding to 27.44%, and January 1, 2009 - R$5,718, corresponding to 8.47%) of the gross balance of outstanding receivables from third parties, to cover credit risk.

The Company restricts its exposure to credit risks related to banks and short-term investments by investing through prime financial institutions and in accordance with previously established limits.

d) Liquidity risk

The table below analyses Kroton's non-derivative financial liabilities, by maturity ranges, corresponding to the remaining period in the balance sheet through the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 year	1 to 2 years	Over 2 years
As of December 31, 2010:			
Borrowings and financing	30,569	29,892	25,069
Finance lease transactions	3,477	1,896	368
Trade accounts payable	24,653	-	-
Other payables	75,069	28,987	58,630
As of December 31, 2009:			
Borrowings and financing	4,842	6,620	3,510
Finance lease transactions	323	790	-
Trade accounts payable	9,896	-	-
Other payables	34,307	16,515	-
As of January 1, 2009:			
Borrowings and financing	5,453	6,399	6,398
Trade accounts payable	15,930	-	-
Other payables	38,944	15,806	-

4.2. Capital management

The Company's objective when managing its capital is to secure the resources necessary to implement its strategy at the lowest capital cost, seeking to maximize return to shareholders.

In fiscal year 2010, the Company presented cash flows intended to implement the growth strategy, whether organically or through acquisitions. Investment decisions take into account the expected return potential.

Financial leverage ratios are as follows:

	Company			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Total loans (note 18)	-	-	-	91,271	14,869	17,453
Less: cash and cash equivalents (note 7)	(13)	(53)	(5)	(26,168)	(17,264)	(9,114)
Net debt	(13)	(53)	(5)	65,103	(2,395)	8,339
Total shareholders' equity	816,176	793,395	445,125	816,176	793,418	445,085
Total	816,163	793,342	445,120	881,279	791,023	453,424
Financial leverage ratio	(0.0)%	(0.0)%	(0.0)%	7.9%	(0.3)%	1.8%

4.3. Fair value estimate

It is assumed that the account balance of trade accounts receivable less the allowance for losses approximates its fair value. The fair value of the financial liabilities, for disclosure purposes, is estimated by discounting future contractual cash flows at the prevailing market interest rate available to the Company for similar financial instruments.

a) Financial instruments measured at fair value in the balance sheet

The Company applies the amendment to IFRS 7 for financial instruments measured at fair value in the balance sheet, which requires disclosure of fair value measurements based on the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- In addition to the quoted prices, included in level 1, inputs used by the market for assets or liabilities, whether directly (such as prices) or indirectly (such as those derived from prices) (level 2).
- Inputs for assets or liabilities that are not based on the data adopted by the market (unobservable inputs) (level 3).

The table below shows Kroton's assets and liabilities measured at fair value:

	Level 2 12/31/10	Level 2 31/12/09	Level 2 01/01/09
Assets-			
Available-for-sale financial assets:			
Bank certificates of deposit (CDB)	7,435	393,120	69,876
Investment fund shares	-	-	45,173
Others	-	-	55
Total assets	7,435	393,120	115,104

The fair value of the financial instruments traded in active markets is based on market prices at the balance sheet date. A market is considered active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. As of December 31, 2010, the Company had no financial instruments classified within level 1.

The fair value of financial instruments not traded in active markets is determined using valuation techniques. These measurement methods make maximum use of market inputs, where available, and rely as little as possible on entity specific inputs. If all relevant inputs required with regard to the fair value of an instrument are adopted by the market, the instrument will be included in level 2. The financial instruments included in level 2 comprise mainly investments classified as available-for-sale securities.

If one or more relevant inputs are not based on data adopted by the market, the instrument will be included in level 3. As of December 31, 2010, the Company had no financial instruments classified within level 3.

a) Fair value of borrowings and financing

The carrying amount of borrowings includes rates pegged to the IPCA and UMBNDES and approximates their fair value.

b) Other financial assets and liabilities

The fair value of other financial assets and liabilities does not differ materially from their carrying amounts, since they were contracted and recorded at market rates and conditions for transactions with similar nature, risk and terms.

4.4. Sensitivity analysis

The table below shows the sensitivity analysis for financial instruments, describing the risks that may result in material losses for the Company using a most probable scenario, according to an assessment made by Management for a twelve-month period. Additionally, two other scenarios are shown to present a 25% and 50% stress of the risk variable considered, respectively.

For the sensitivity analysis, we used as assumption the macroeconomic indicators prevailing at the close of the reporting period, as we understand that in view of the current market volatility, the probable scenario for fiscal year 2011 will be similar to the scenario of the period ended December 31, 2010.

a) Securities

Index	Value	Risk	Probable scenario	Possible scenario (25%)	Remote scenario (50%)
CDI	7,435	Decrease of CDI	722	542	361

b) Borrowings and financing

Index	Value	Risk	Probable scenario	Possible scenario (25%)	Remote scenario (50%)
IPCA	10,911	IPCA increase	645	806	968
CDI	80,360	CDI increase	7,803	9,754	11,705

Indexes used (probable scenario): CDI - 9.71% and IPCA - 5.91%.

Management prepared a sensitivity analysis for the other financial instruments as of December 31, 2010 and verified that they do not present risk of material loss.

5. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	Available for sale	Total
Assets-			
December 31, 2010:			
Securities (not highly liquid)	-	7,435	7,435
Trade accounts receivable	147,295	-	147,295
Other accounts receivable (excluding prepayments)	70,020	-	70,020
Financial assets measured at fair value through profit or loss-			
Cash and cash equivalents	26,168	-	26,168
	243,483	7,435	250,918

	Liabilities measured at amortized cost	Total
Liabilities-		
December 31, 2010:		
Loans	85,530	85,530
Finance lease transactions	5,741	5,741
Trade accounts payable	24,653	24,653
Other payables (except statutory obligations)	162,686	162,686
	278,610	278,610

	Loans and receivables	Available for sale	Total
Assets-			
December 31, 2009:			
Securities	-	393,120	393,120
Trade accounts receivable	63,795	-	63,795
Other accounts receivable (excluding prepayments)	41,649	-	41,649
Financial assets measured at fair value through profit or loss-			
Cash and cash equivalents	17,264	-	17,264
	122,708	393,120	515,828

	Liabilities measured at amortized cost	Total
Liabilities-		
December 31, 2009:		
Loans	13,842	13,842
Finance lease transactions	1,027	1,027
Trade accounts payable	9,896	9,896
Other payables (except statutory obligations)	38,874	38,874
	63,639	63,639

	Loans and receivables	Available for sale	Total
Assets-			
January 1, 2009:			
Securities	-	115,104	115,104
Trade accounts receivable	61,689	-	61,689
Other accounts receivable (excluding prepayments)	41,683	-	41,683
Cash and cash equivalents	9,114	-	9,114
	112,486	115,104	227,590

	Liabilities measured at amortized cost	Total
Liabilities-		
January 1, 2009:		
Loans	17,453	17,453
Trade accounts payable	15,930	15,930
Other payables (except statutory obligations)	48,044	48,044
	81,427	81,427

6. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are not past due or impaired may be evaluated by reference to external credit ratings (if any) or historical information on default rates for counterparts:

	12/31/2010	12/31/2009	01/01/2009
Trade accounts receivable-			
Counterparts without external credit rating:			
Group 1 - higher education	173,301	34,171	41,706
Group 2 - K-12 education	33,212	29,624	19,983
	206,513	63,795	61,689
Cash at bank and short-term bank deposits[1]:			
AAA	14,487	15,218	6,895
AA	10,420	1,220	1,513
A	3	545	8
BBB	-	42	96
Others	1,258	239	602
	26,168	17,264	9,114

The residual balance under “Cash and cash equivalents” in the balance sheet represents cash.

	12/31/2010	12/31/2009	01/01/2009
Available-for-sale debt securities:			
AAA	-	337,716	69,587
AA	278	43,669	39,623
A	6,774	6,300	5,894
Others	383	5,435	-
	7,435	393,120	115,104

- Group 1 - Existing clients/related parties resulting from products offered in higher education.
- Group 2 - Existing clients/related parties resulting from products offered in K-12 education.

None of the non-defaulted financial assets was renegotiated in the last year.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include financial assets classified as loans and receivables, as follows:

	Company			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Banks	13	53	5	26,168	17,264	9,114
	13	53	5	26,168	17,264	9,114

8. SECURITIES

Securities include financial assets classified as available for sale, as follows:

	Consolidated		
	12/31/2010	12/31/2009	01/01/2009
Bank certificates of deposit (CDB) (a)	7,435	393,120	69,876
Investment fund shares (b)	-	-	45,173
Others	-	-	55
	7,435	393,120	115,104

The investments mentioned above are highly liquid and were classified as securities because they are substantially linked to future investments related to expansion projects.

Average monthly income for the year 2010 was 0.97% (2009 - 0.88%), and financial income generated totaled R$9,111 (2009 - R$21,826).

(a) It refers to short-term investments in CDB whose yield is indexed to the CDI fluctuation, ranging from 99% to 106% of CDI (from 100% to 104.5 % as of December 31, 2009, and from 101% to 102% as of January 1, 2009). In 2010, they are linked to active loans; therefore, they are classified as noncurrent.

(b) Refer to short-term investments in investment funds, with original maturity of 90 days, where the variation in the daily value of the shares is linked to the financial market behavior.

Securities classified as available-for-sale financial assets as of December 31, 2010 and 2009 and January 1, 2009 are recorded in reais.

The maximum exposure to credit risk as of the reporting date is the carrying amount of debt securities classified as available for sale.

None of these financial assets is past due or impaired.

9. TRADE ACCOUNTS RECEIVABLE - CONSOLIDATED

	12/31/2010	12/31/2009	01/01/2009
Higher education	173,301	58,952	47,009
K-12 education	33,212	29,552	20,398
	206,513	88,504	67,407
Allowance for doubtful accounts:			
Higher education	(51,280)	(22,239)	(4,737)
K-12 education	(6,967)	(2,045)	(981)
Trade accounts receivable, net	148,266	64,220	61,689
Adjustment to present value (a)	(971)	(425)	-
	147,295	63,795	61,689
Current assets	124,451	63,795	61,689
Noncurrent assets (b)	22,844	-	-

(a) The Discount to Present Value - DPV is calculated on receivables from book collections only, through the discounted cash flow method, using the Central Bank overnight rate (SELIC) as the discount rate. As the receivables are realized, the balance classified as DPV is recognized as financial income (expenses).

(b) Refer to renegotiations and student loans.

Receivables from book sales were initially recognized at fair value and subsequently measured at their amortized cost using the effective interest rate method.

In 2009, the following adjustments were made to receivables and allowance for doubtful accounts:

	2009
Write-off of accounts receivable (a)	20,671
Write-off of returned checks (b)	8,150
Increase in the allowance for doubtful accounts (c)	6,377
	35,198

(a) In the fourth quarter of 2009, the centralization of the academic and collection system called "Lyceum" was completed, integrating 24 colleges into the same academic and financial environment. Concurrently with the centralization, the whole financial and academic records of active and inactive students were migrated to the system, a broad review of student credit, retention and withdrawal rules was carried out, data bases were migrated, and information from said system and the accounting records were matched. As a result of that work, the need was identified to write off a portion of receivables to reflect collectible trade receivables of students identifiable within the new system; accordingly, an adjustment in the amount of R$20,671 was recorded under "Operating expenses from sales" for the year ended December 31, 2009.

(b) In December 2009, the centralization of internal controls for checks received by different higher education institutions was completed, and a review was made of the collectability of such checks, which refer mainly to renegotiations with defaulting students. As a result of this work, returned checks the collection of which was deemed difficult were written off, and such write-off was also recorded under "Operating expenses from sales" for the year.

(c) With regard to the activities described in reference (a), a broad review of the base of active and inactive students was carried out with the support of external consultants, with the purpose of generating expected loss indicators based on the efficiency of the collection portfolio by age of default for each of the education institutions. New collection rules, performance indicators, and the centralization of credit and collection activities were also completed. By virtue of the result of said work, an initial adjustment of R$6,377 was recognized in the allowance for doubtful accounts, based on the change in the expected receipt of past-due bills, and was recorded also under "Operating expenses from sales".

On December 31, 2010, it was determined that only college tuitions past due for no more than 360 days would remain in accounts receivable. As a result of this decision, all bills past due over 360 days were written off, as follows:

	2010
Write-off of bills past due over 360 days	23,396
Write-off of allowance for doubtful accounts	(23,396)
	-

Kroton's trade accounts receivable as of December 31, 2010 and 2009 and January 1, 2009 are recorded in reais.

The Company has no trade note discount transactions as of December 31, 2010 and 2009 and January 1, 2009.

As of December 31, 2010, receivables in the amount of R$63,222 (R$18,360 as of December 31, 2009, and R$8,293 as of January 1, 2009) were all non-defaulting.

As of December 31, 2010, receivables in the amount of R$84,073 (R$45,860 as of December 31, 2009, and R$53,396 as of January 1, 2009) were past due, but not impaired. These accounts refer to several independent clients that have no recent history of default.

The aging list of these net trade accounts receivable is as follows:

	12/31/2010	12/31/2009
Up to 3 months	31,427	15,353
From 3 to 6 months	31,006	9,716
From 7 to 12 months	21,640	9,912
From 13 to 18 months	-	10,879
	84,073	45,860

As of December 31, 2010, receivables in the amount of R$58,247 (R$24,484 as of December 31, 2009, and R$5,718 as of January 1, 2009) were impaired and accrued.

As of December 31, 2010, the balance of receivables totaled R$147,295 (R$63,795 as of December 31, 2009, and R$61,689 as of January 1, 2009).

The aging list of these receivables is as follows:

	12/31/2010	12/31/2009
Current-	64,439	18,360
Past-due:		
Up to 30 days	19,231	6,807
31 to 60 days	15,979	4,514
61 to 90 days	9,259	4,032
Above 91 days	97,605	54,791
Allowance for losses on trade receivables	(58,247)	(24,284)
DPV	(971)	(425)
	147,295	63,795

Changes in Kroton's allowance for losses on trade receivables are as follows:

	2010	2009
Opening balance as of January 1	24,284	5,718
Addition from IUNI	29,222	-
Allowance for losses on trade receivables	28,137	18,566
Write-off of allowance for doubtful accounts	(23,396)	-
Balance as of December 31	58,247	24,284

The recognition and write-off of the impaired allowance for losses on trade receivables were recorded in the statement of income under "Selling expenses" (note 29). Expense on discounts was recorded under "Deduction from revenue". Amounts charged to the allowance account are generally written off when recovery is no longer expected.

Maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables as mentioned above. The Company has not pledged any securities as collateral.

10. INVENTORIES - CONSOLIDATED

	12/31/2010	12/31/2009	01/01/2009
"Pitágoras" books and collections	11,066	11,328	8,384
Educational software (a)	5,010	-	-
Advertising and other materials	1,935	264	257
Commercial books	1,737	232	697
Raw materials	1,477	2,207	1,040
Others	708	368	996
Allowance for losses (b)	(3,011)	(2,049)	(654)
	18,922	12,350	10,720

(a) In September 2010, an agreement was entered into with Designmate, an Indian 3D e-learning company, which allows the licensing of the learning content library to third parties.

(b) The allowance for probable losses on inventories of books and collections from prior years is calculated based on their expected realization. A portion of such inventories is used by the customer prospecting team, and its cost is recorded in income to the extent that the books are delivered to the prospected schools.

The cost of inventories recognized as cost of sales totaled R$22,769 in 2010 (R$15,642 as of December 31, 2009).

In 2010, the Company recognized an allowance for inventory losses in the amount of R$962 (2009 - R$1,395) relating to inventory items of collections prior to 2010. The amounts related to said allowance were recorded under "Costs of products sold" in the statement of income.

Changes in the allowance for inventory losses are as follows:

Balance as of January 1, 2009	(654)
Allowance recognized in the year	(1,395)
Balance as of December 31, 2009	(2,049)
Allowance recognized in the year	(962)
Balance as of December 31, 2010	(3,011)

11. ADVANCES TO SUPPLIERS

Campus	Supplier	Company 12/31/2010	Company 12/31/2009	Consolidated 12/31/2010	Consolidated 12/31/2009	Consolidated 01/01/2009
Betim Campus	PFC Gestão Patrimonial	-	-	11,253	7,081	2,223
Raja Campus	Construtora Almeida	-	-	5,837	7,388	8,260
Governador Valadares Campus	Novatécnica	-	-	-	1,000	1,000
Others		-	45	4,658	2,535	2,973
		-	-	21,748	18,004	14,456
Current assets		-	45	8,353	5,510	5,693
Noncurrent assets			-	13,395	12,494	8,763

Consist basically of prepayments to suppliers for the construction and upkeep of the buildings of the higher education units in Betim, Raja, and Governador Valadares. These amounts are classified as recoverable amounts in current assets, as they will be offset against monthly lease payments and adjusted on a monthly basis as contractually prescribed.

12. RECOVERABLE TAXES

	12/31/2010	12/31/2009
Current assets:		
Corporate income tax (IRPJ) and social contribution (CSLL) (a)	11,714	4,547
REFIS IV (Tax Debt Refinancing Program) - adhesion installments (b)	1,912	-
Social security contribution (INSS)	1,055	445
Taxes on revenue (PIS and COFINS)	290	77
Tax on services (ISSQN)	224	29
State VAT (ICMS)	22	234
	15,217	5,332
Noncurrent-		
INSS (c)	4,693	-
Total recoverable taxes	19,910	5,332

(a) Refer to Withholding Income Tax (IRRF) on short-term investments and payments of monthly estimates of IRPJ and CSLL, originating mainly in the current year, from which balance R$7,198 correspond to EDE and R$1,463 correspond to IUNI. Said balance will be used to reduce IRPJ and CSLL liabilities, as well as to arrive at the negative balance of IRPJ and CSLL that may be used to offset against any federal tax managed by the Brazilian Revenue Service.

(b) In April 2008, some subsidiaries joined the tax installment plan established by the Joint Administrative Rule PGFN/RFB 06/2007, referred to as “IES Installment Plan”. Thereafter, these subsidiaries decided not to use that installment payment program and joined the Tax Debt Refinancing Program (REFIS IV), created by Law 11941/09. Since the “IES installment plan” had not yet been consolidated, all adhesion installments paid thereunder will be reimbursed and/or offset against other tax debts in accordance with administrative or legal proceedings filed by the Company with the relevant tax authorities.

(c) From that balance, R$3,919 refer to the early settlement of social security charges in installments and FIES (Student Financing Program) installments for UNIME LF, to be used in the amortization of the balance to be consolidated under REFIS IV.

13. INCOME TAX AND SOCIAL CONTRIBUTION

a) Income tax and social contribution in income (loss)

Income tax and social contribution differ from the theoretical amount that would have been obtained by using the statutory income tax and social contribution rates applicable to the profit of the consolidated entities, as follows:

a.1.) Company

	2010	2009
Loss before income tax and social contribution	(29,623)	(8,013)
Combined income tax and social contribution rate - %	34	34
Income tax and social contribution - Statutory rate	10,072	2,724
Reconciliation of income tax and social contribution income		
Equity in investees	(9,565)	(2,436)
Unrecognized tax credit	(507)	(288)
Income tax and social contribution in the income statement	-	-

a.2) Consolidated

	2010	2009
Loss before income tax and social contribution	(27,186)	(1,352)
Combined income tax and social contribution rate - %	34	34
Income tax and social contribution - Statutory rate	9,243	460
Reconciliation of income tax and social contribution income		
Tax incentive of subsidiary entitled to PROUNI benefit (a)	10,009	7,684
Permanent deductions, net	(8,323)	(11,964)
Reversal of tax credits and complements from prior years		(2,503)
Unrecognized tax credit (b)	(13,366)	(338)
Income tax and social contribution in the income statement	(2,437)	(6,661)

(a) Corresponds to companies exempt from income tax and social contribution because they joined the University for All Program (PROUNI).

(b) These amounts are related to tax credits originating from corporate restructuring, which are being utilized in the proportion of 1/120 per month.

The differences between the tax bases of assets and liabilities included in accounting records, prepared under the IFRSs, were recognized as temporary differences for deferred tax accounting purposes, as a contra entry to income (or expenses) in the statement of income.

b) Deferred income tax and social contribution

Deferred tax assets basically recognized by subsidiary EDE, are as follows:

	Consolidated		
	2010	2009	2008
Income tax loss carryforwards	5,106	4,181	4,329
Social contribution tax loss carryforwards	1,838	1,507	1,558
Temporary differences (primarily goodwill)	3,569	4,553	6,724
	10,513	10,241	12,611

Management prepared a technical study on the viability of the future realization of deferred tax assets, considering the probable ability of the companies to generate future taxable income, using the main variables applicable to their businesses, which are, therefore, subject to changes.

Income tax and social contribution on temporary additions refer mainly to goodwill arising on the merger of Apollo do Brasil Participações Ltda. ("Apollo Brasil") by Pitágoras Apollo Internacional S.A. ("PAI").

According to projections prepared by the companies' Management, noncurrent deferred income tax and social contribution will be realized in the following years:

	2010	2009
2010	-	2,997
2011	3,449	3,003
2012	1,504	3,246
2013	1,941	995
2014	2,608	-
2015	1,011	-
	10,513	10,241

In addition to these deferred tax assets, the Company has in its tax records the amount of R$13,366 (R$338 as of December 31, 2009, and R$93 as of January 1, 2009) to be offset against future taxable profits; such amount has not yet been recorded, as it is not possible to assert that its realization is deemed probable.

As the taxable basis for income tax and social contribution arises not only from income that may be generated, but also from non-taxable revenues, nondeductible expenses, tax incentives and other variables, there is no immediate correlation between Kroton's group companies' net income and income tax and social contribution amounts. Therefore, the expected utilization of tax credits should not be the sole indication of Kroton's future earnings.

Balances of and changes in deferred income tax and social contribution assets and liabilities, recognized at their statutory rates, are as follows:

	01/01/2009	Recognized in income	12/31/2009	Recognized in income	12/31/2010
In assets:					
Income tax					
Tax loss carryforwards	4,329	(148)	4,181	1,013	5,171
Temporary provisions:					
Goodwill on merger	4,298	(1,585)	2,713	(724)	1,989
Write off of deferred charges (IFRS)	646	(11)	635	(65)	570
Current assets	9,273	(1,744)	7,529	224	7,730
Social contribution					
Tax loss carryforwards	1,558	(51)	1,507	331	1,861
Temporary provisions:					
Goodwill on merger	1,547	(571)	976	(260)	716
Write off of deferred charges (IFRS)	233	(4)	229	(23)	206
	3,338	(626)	2,712	48	2,783
Noncurrent assets	12,611	(2,370)	10,241	272	10,513
In liabilities					
Deferred income tax	-	342	342	847	1,189
Deferred social contribution	-	123	123	305	428
Noncurrent liabilities		465	465	1,152	1,617

Deferred income tax and social contribution liabilities arise from goodwill - which is an intangible asset with indefinite useful life - at subsidiary SPES on the acquisition of Colégio Cidade Jardim, subsequently merged, which made goodwill deductible for income tax and social contribution purposes. Intangible assets with indefinite useful lives cannot be amortized; however, this goodwill is being amortized for tax purposes, writing down the related tax base. On the amount amortized for tax purposes, deferred income tax and social contribution were recognized, amounting to R$937 (December 31, 2009 - R$465).

In August 2010, EDE merged some direct subsidiaries and started to amortize, for tax purposes, the existing goodwill in the proportion of 1/120 per month, recording deferred income tax and social contribution in the amount of R$680 in 2010.

c) Tax incentives

The University for All Program (ProUNI) grants, under Law 11096 of January 13, 2005, exemption from several federal taxes to higher education entities that grant partial and full scholarships to low-income students enrolled in traditional and technology degrees. The higher education entities controlled by the Company have joined this program.

Under Federal Revenue Service Regulatory Instruction 456 of October 5, 2004, private higher education entities that joined the ProUNI are fully or partially exempt from the following taxes while they are part of the program:

- Income tax and social contribution levied on net income proportional to revenue generated by traditional and technology graduation degrees.

- Taxes on revenue (PIS and COFINS) levied on revenue generated by traditional and technology graduation degrees.

By virtue of the tax exemptions granted to companies joining ProUNI, the subsidiaries that have tax loss carryforwards do not recognize tax credits. Tax credits not recognized under ProUNI in 2010 represent R$29,839 (R$7,684 in 2009, and R$6,568 in 2008).

Additionally, the companies, which are mainly engaged in the sale of books, have the benefit of not paying PIS and COFINS on the revenue arising from the sale of books in the domestic market, as set out in Article 28 of Law 10865/04. These companies benefit also from exemption of ICMS on the sale of textbooks.

14. INVESTMENTS

a) Information on investments - subsidiary EDE

	As of December 31,	
	2010	2009
Number of shares held	843,569,174	790,399,960
Equity interest - %	100	99.99
Capital	790,891	790,340
Shareholders' equity	786,893	816,528
Net loss	(28,131)	(7,165)
Carrying amount of investments (*)	765,427	793,415
Equity in investees	(28,131)	(7,165)

(*) Company's carrying amount of investments and shareholders' equity are different by virtue of the reciprocal interests between the companies.

Changes in investments for the years are as follows:

	2010	2009
Opening balance	793,415	439,231
Capital increase	551	386,274
Equity in subsidiaries	(28,131)	(7,165)
Interim dividends	-	(24,871)
Purchase of Company's shares for treasury	(3,304)	(368)
Stock option plan	3,031	377
Others	(135)	(63)
Closing balance	765,427	793,415

b) Information on investments as of December 31, 2010 and 2009 - EDE's equity interest in its subsidiaries

	Number of shares held		Capital		Book shareholders equity	
	2010	2009	2010	2009	2010	2009
AESG	-	7,850	-	7,850	-	6,193
ÁGORA	809,198	709,198	809	709	114	49
CBTA	-	2,403,044	-	2,403	-	1,120
FAC ARACAJÚ	-	56,022	-	56	-	39
FACTEF	-	2,014,333	-	2,014	-	3,421
FADOM	-	4,985,223	-	4,985	-	5,993
FATEC	916,919	816,919	917	817	687	575
GK	471,168	5,000	471	5	(62)	-
INADE	1,000,000	1,000,000	1,000	1,000	2,647	3,538
JAPI	-	5,968,809	-	5,969	-	3,165
NABEC	-	10,000	-	10	-	(654)
ORME	19,563,840	17,513,840	19,564	17,514	12,804	13,294
PAX	7,076,972	4,306,972	7,077	4,307	6,522	2,801
PROJECTA	-	100,000	-	93	-	46
PROJECTA EDE	9,233,336	5,003,336	9,233	5,003	4,951	2,287
PSES	124,036,613	106,336,613	124,037	106,337	136,407	134,068
SÃO FRANCISCO	-	258,000	-	258	-	258
SEG	-	299,787	-	300	-	294
SEL	-	-	-	-	-	-
SESG	-	60	-	60	-	553
SPES	18,352,151	18,316,710	18,352	18,317	19,201	16,011
SUESC	24,762,598	24,763,000	24,763	24,763	15,052	20,084
UCES	-	2,771,075	-	2,771	-	-
UMEP	19,759,874	18,009,874	19,760	18,010	7,464	6,405
UNILINHARES	8,157,757	6,927,757	8,158	6,928	6,831	4,681
UNIMINAS	-	10,168,304	-	10,168	-	5,423
IUNI	2,000,000	-	2,000	-	(73,755)	-
UNIC PRIMAVERA ANTIGA	366,000	-	366	-	(61)	-
UNIC PRIMAVERA NOVA	1,457,000	-	1,457	-	2,009	-
UNIC ROO AE	150,000	-	150	-	3,267	-
UNIC ROO FP	2,111,703	-	2,112	-	(1,504)	-
UNIC SINOP	120,000	-	120	-	2,840	-
UNIC TANGARÁ NORTE	3,097,000	-	3,097	-	(1,278)	-
UNIC TANGARÁ SUL	3,236,010	-	3,236	-	541	-
UNIC VG	271,100	-	271	-	1,340	-
UNIME ITABUNA	5,069,000	-	5,069	-	2,889	-
UNIME SALVADOR	7,115,000	-	7,115	-	178	-
FAMA MARABÁ	291,900	-	292	-	(228)	-
UNIME LF	23,718,026	-	23,718	-	(1,119)	-
FAMA MACAPÁ	40,000	-	40	-	(1,585)	-

	Net income (loss)		Carrying amount of investment in subsidiary EDE		Equity in subsidiary EDE	
	2010	2009	2010	2009	2010	2009
AESG	(834)	283	-	6,193	(834)	282
ÁGORA	(35)	(301)	114	49	(35)	(301)
CBTA	(786)	(1,346)	-	1,120	(786)	(1,346)
FAC ARACAJÚ	(1)	-	-	39	(1)	-
FACTEF	685	1,924	-	3,421	685	1,925
FADOM	(165)	(625)	-	5,993	(165)	(625)
FATEC	11	(212)	687	575	11	(212)
GK	(534)	-	(62)	-	(534)	-
INADE	(891)	359	2,647	3,538	(891)	360
JAPI	(758)	(1,096)	-	3,165	(758)	(1,097)
NABEC	(3)	(414)	-	(654)	(3)	(474)
ORME	(2,539)	(6,645)	12,804	13,294	(2,539)	(6,646)
PAX	950	(586)	6,522	2,801	950	(588)
PROJECTA	(11)	(47)	-	46	(11)	(47)
PROJECTA EDE	(1,566)	(1,349)	4,951	2,287	(1,566)	(1,349)
PSES	(15,374)	1,924	136,407	134,068	(15,374)	1,921
SÃO FRANCISCO	-	-	-	258	-	-
SEG	(5)	(6)	-	294	(5)	(6)
SEL	-	(82)	-	-	-	(82)
SESG	318	278	-	553	318	279
SPES	3,152	1,967	19,201	16,011	3,152	1,966
SUESC	(5,034)	641	15,052	20,084	(5,034)	641
UCES	-	(1,175)	-	-	-	(1,175)
UMEP	(691)	(5,434)	7,464	6,405	(691)	(5,433)
UNILINHARES	920	(1,076)	6,831	4,681	920	(1,073)
UNIMINAS	(1,751)	(697)	-	5,423	(1,751)	(698)
IUNI (*)	41,905	-	(73,755)	-	41,905	-
UNIC PRIMAVERA ANTIGA (*)	870	-	(61)	-	870	-
UNIC PRIMAVERA NOVA (*)	2,259	-	2,009	-	2,259	-
UNIC ROO AE (*)	3,866	-	3,267	-	3,866	-
UNIC ROO FP (*)	903	-	(1,504)	-	903	-
UNIC SINOP (*)	1,107	-	2,840	-	1,107	-
UNIC TANGARÁ NORTE (*)	38	-	(1,278)	-	38	-
UNIC TANGARÁ SUL (*)	1,189	-	541	-	1,189	-
UNIC VG (*)	1,219	-	1,340	-	1,219	-
UNIME ITABUNA (*)	4,855	-	2,889	-	4,855	-
UNIME SALVADOR (*)	216	-	178	-	216	-
FAMA MARABÁ (*)	(51)	-	(228)	-	(51)	-
UNIME LF (*)	8,770	-	(1,119)	-	8,770	-
FAMA MACAPÁ (*)	853	-	(1,585)	-	853	-
			146,152	229,644	43,057	(13,778)

(*) Net income and equity in subsidiaries as of March 2010.

15. PROPERTY, PLANT AND EQUIPMENT - CONSOLIDATED

	Average annual depreciation rate %	12/31/2010			12/31/2009			01/01/2009		
		Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
IT equipment	20	27,215	(14,947)	12,268	17,041	(8,141)	8,900	14,839	(6,141)	8,698
Furniture, fixtures and equipment	10	76,228	(24,049)	52,179	41,391	(11,506)	29,885	34,678	(9,319)	25,359
Library	10	42,873	(15,321)	27,552	26,121	(6,418)	19,703	25,239	(4,923)	20,316
Buildings and improvements	4	112,100	(16,386)	95,714	84,513	(9,978)	74,535	53,455	(5,030)	48,425
Constructions in progress		14,479	-	14,479	20,476	-	20,476	23,808	(24)	23,784
Land		21,174	-	21,174	14,154	-	14,154	14,154	-	14,154
		294,069	(70,703)	223,366	203,696	(36,043)	167,653	166,173	(25,437)	140,736

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The depreciation for the year allocated to “Cost of services” and “Administrative expenses” was R$20,528 (R$11,903 in 2009).

There is no evidence that property, plant and equipment items are impaired.

Changes in the property, plant and equipment balance are as follows:

	IT equipment	Furniture, fixtures and equipment	Library	Buildings and improvements	Property, plant and equipment in progress	Land	Property, plant and equipment
Balances as of January 1, 2009	8,698	25,359	20,316	48,425	23,784	14,154	140,736
Additions	2,907	7,843	2,966	11,551	15,477	-	40,744
Write-offs	(284)	-	(1,376)	(264)	-	-	(1,924)
Depreciation	(2,421)	(3,317)	(2,203)	(3,962)	-	-	(11,903)
Transfers	-	-	-	18,785	(18,785)	-	-
Balances as of December 31, 2009	8,900	29,885	19,703	74,535	20,476	14,154	167,653
Addition from IUNI, net	2,822	16,599	6,967	7,741	2,941	1,216	38,286
Additions	5,145	11,917	5,003	2,043	8,854	5,804	38,766
Write-offs	(17)	(155)	(495)	(144)	-	-	(811)
Depreciation	(4,582)	(6,067)	(3,626)	(6,253)	-	-	(20,528)
Transfers	-	-	-	17,792	(17,792)	-	-
Balances as of December 31, 2010	12,268	52,179	27,552	95,714	14,479	21,174	223,366

The Company leases IT equipment under irreversible agreements subject to interest ranging from 3.87% to 5.83% per month, with purchase option clauses, whose lease period ranges from 24 to 36 months. The equipment is owned by Kroton. As of December 31, 2010, the balance of leases totaled R$5,742 (R$1,027 as of December 31, 2009, and R$57 as of January 1, 2009).

16. INTANGIBLE ASSETS

	Company	Consolidated				
	Goodwill paid on acquisition (b)	Software	Goodwill paid on acquisitions (b)	Development of internal projects (c)	Customer portfolio (d)	Total
Balances as of January 1, 2009	7,191	4,732	94,559	59,024	-	158,315
Additions	-	6,269	500	17,611	-	24,380
Write-offs	-	(157)	(1,428)	(1,008)	-	(2,593)
Goodwill adjustment	-	-	(2,020)	-	-	(2,020)
Amortization	-	(1,729)	(566)	(2,211)	-	(4,506)
Balances as of December 31, 2009	7,191	9,115	91,045	73,416	-	173,576
Total cost	10,523	12,643	103,772	77,787	-	194,202
Accumulated amortization	(3,332)	(3,528)	(12,727)	(4,371)	-	(20,626)
Balances as of December 31, 2009	7,191	9,115	91,045	73,416	-	173,576
Additions from IUNI	-	4,298	77,194	-	-	81,492
Additions	52,259	6,338	326,582	732	28,069	361,721
Write-offs (a)	-	(44)	(2,876)	(262)	-	(3,182)
Goodwill adjustment	-	-	(3,127)	-	-	(3,127)
Amortization	-	(2,879)	-	(4,833)	(5,614)	(13,326)
Others	-	-	-	-	-	-
Balances as of December 31, 2010	59,450	16,828	488,818	69,053	22,455	597,154
Total cost	62,782	23,201	501,339	78,250	28,069	630,859
Accumulated amortization	(3,332)	(6,373)	(12,521)	(9,197)	(5,614)	(33,705)
Balances as of December 31, 2010	59,450	16,828	488,818	69,053	22,455	597,154
Annual amortization rates - %		20		10	20	

(a) Write-off of CBTA's assets as a result of its sale in July 2010

The amortization in 2010 allocated to cost of products sold, cost of services, and administrative expenses was R$8,981 (R$4,506 as of December 31, 2009).

(b) Goodwill paid on acquisition

The goodwill resulting from the difference between the amount paid upon the acquisition of investments in subsidiaries and the fair value of assets and liabilities (for acquisitions after January 1, 2009) is classified in intangible assets in the consolidated financial statements.

The breakdown of goodwill paid on acquisitions is as follows:

	Company			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
AESG (iv)	-	-	-	2,209	2,209	2,209
CBTA (iv)	-	-	-	-	2,877	2,877
Cidade Jardim (ii)	-	-	-	6,889	6,889	6,889
Editora (iii)	59,450	7,191	7,191	59,450	7,191	7,191
FACTEF (iv)	-	-	-	5,423	5,423	7,532
FADOM (iv)	-	-	-	9,358	9,358	9,358
FATEC (iv)	-	-	-	305	305	305
GK (iv)	-	-	-	500	500	-
JAPI (iv)	-	-	-	3,809	3,809	3,809
NABEC (iv)	-	-	-	130	130	130
São Francisco (iv)	-	-	-	928	928	928
SESG (iv)	-	-	-	1,819	1,819	1,819
SUESC (iv)	-	-	-	7,550	7,550	15,116
UCES (iv)	-	-	-	-	-	1,339
UMEP (iv)	-	-	-	11,550	11,550	11,550
UNILINHARES (iv)	-	-	-	10,477	10,477	10,477
UNIMINAS (iv)	-	-	-	20,030	20,030	20,030
IUNI (i)	-	-	-	271,197	-	-
FAMA MARABÁ (iv)	-	-	-	254	-	-
FAMA MACAPÁ (iv)	-	-	-	8,007	-	-
UNIC PRIMAVERA ANTIGA (iv)	-	-	-	3,457	-	-
UNIC PRIMAVERA NOVA (iv)	-	-	-	7,673	-	-
UNIC ROO AE (iv)	-	-	-	8,848	-	-
UNIC ROO FP (iv)	-	-	-	2,780	-	-
UNIC SINOP (iv)	-	-	-	2,666	-	-
UNIC TANGARÁ DO NORTE (iv)	-	-	-	8,084	-	-
UNIC TANGARÁ DO SUL (iv)	-	-	-	8,792	-	-
UNIC VÁRZEA GRANDE	-	-	-	(197)	-	-
UNIME ITABUNA (iv)	-	-	-	15,700	-	-
UNIME SALVADOR (iv)	-	-	-	11,130	-	-
	59,450	7,191	7,191	488,818	91,045	101,559

(i) Refers to goodwill recognized as set out in the purchase and sale agreement entered into with the former controlling shareholder of IUNI, dated March 12, 2010. The corporate reorganization was completed in September 2010 and granted the former controlling shareholder 4,200,000 units in the Company, representing an equity interest of 6.31%, in exchange for the ownership of 550,512 IUNI shares. As a result of the recognition of the full control of IUNI beginning March 1, 2010, the Company recorded a R$32,805 increase in goodwill, corresponding to the fair value of these IUNI shares as of February 28, 2010.

(ii) Refers to goodwill recognized on the increase in PSES's equity interest in Colégio Pitágoras Cidade Jardim S.A., which was merged by PSES in October 2003. Such goodwill is based on expected future earnings and is being amortized since 2004, at the rate of 10% per year. In January 2007, such goodwill was transferred to SPES because of the acquisition of Colégio Cidade Jardim.

(iii) Refers to goodwill originally recognized by Apollo Partners, due to the acquisition of EDE shares held by Apollo Europe. During the corporate restructuring undertaken in the second quarter of 2007, there was the downstream merger of Apollo Partners into and with EDE to allow the utilization of goodwill for tax purposes, and in line with CVM Instruction 349/01 guidelines, the merged company recognized an allowance amounting to the difference between goodwill and the tax benefit arising from its amortization. When the corporate restructuring was completed, goodwill was recognized by the Company pursuant to CVM Instruction 349/01.

(iv) Refers to goodwill recognized upon the acquisition of colleges based on expected future earnings, except for SUESC, basically recognized based on the appreciation of its property, plant and equipment.

Goodwill impairment testing

The goodwill is allocated to the CGUs, which are identified based on the operating segment.

Below is a summary of goodwill allocation by operating segment level:

	Company			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
K-12 education	59,450	7,191	7,191	63,339	14,080	14,080
Higher education	-	-	-	425,479	76,965	87,479
	59,450	7,191	7,191	488,818	91,045	101,559

Goodwill was tested for impairment, and no need to adjust goodwill balances was identified.

The discounted cash flow (future earnings) method was used in the testing, and the CGUs determined by the Company to test goodwill for impairment correspond to each of the higher education entities. The calculation considers a five-year projection, adding a perpetuity value with a real growth of 3.0% per year. A discount rate of 19.6% per year was used.

The assumptions used in the projection consider the average number of students at the campuses, with an average growth of 19.6% per year, supported by the offering of new degrees.

One of the Company's units, UCES, was tested based on the sale agreement executed in 2010, for which the recoverable value of such intangible asset is zero. Accordingly, an impairment in the amount of R$1,427 was recorded as an operating expense in the statement of income for the year 2009.

(c) Development of internal projects

	12/31/2010	12/31/2009	01/01/2009
New units and new degrees (i)	50,077	51,965	40,781
Pitágoras University System (ii)	6,621	7,737	8,838
New contracts - chain (iii)	7,287	8,289	6,050
Distance learning (iv)	3,233	3,570	2,697
Higher education assessment (v)	1,835	1,855	658
	69,053	73,416	59,024

(i) Refer to expenses incurred on:

- The opening of units Ipatinga, Betim, São Luís, Poços de Caldas, Uberlândia, Guarapari, Votorantim, Feira de Santana, Aracajú, Contagem, and Governador Valadares, and the expansion of campuses Cidade Jardim, Guajajaras, and downtown, and, in Belo Horizonte, Venda Nova, Contagem, and other campuses.
- Investments in new product launchings.
- Additional operating and technology infrastructures required by the Ministry of Education (MEC) to allow the operation of higher education units.
- Development of a PDI (Institutional Development Plan) detailing all the degrees to be requested to the MEC and the expenses incurred in the certification of the new campuses and degrees.

(ii) Refers to expenses incurred on the design and development of a teaching methodology (student and teacher handbooks and assessment systems) and an operating methodology (operations manual) to ensure the growth of the Pitágoras University System.

(iii) Refers to expenses incurred on the development of products to be sold in the Catholic Chain and the Pitágoras Chain.

(iv) Refers to expenses incurred on the design and development of the new distance learning business, which will offer partial distance and web-based learning courses in several Brazilian cities.

(v) Refers to expenses incurred on the development of a new higher education product and assessment methodology, offered by subsidiary INADE.

(d) Customer portfolio

Part of the goodwill paid on the acquisition of IUNI was allocated to the customer portfolio, after an analysis of the acquired assets and calculation of the projection of future gains. The balance amounts to R$28,069, to be amortized within up to five years, which is the maximum estimated cash generation period for the acquired portfolio.

17. TRADE ACCOUNTS PAYABLE

The consolidated balance of trade accounts payable consists of services and products necessary for the production and sale of Pitágoras collection textbooks, which are distributed to the K-12 Education school chain by suppliers of materials and services for our higher education degrees, and advisory services in the education area.

18. BORROWINGS AND FINANCING - CONSOLIDATED

a) Breakdown of borrowings and financing

	12/31/2010	12/31/2009	01/01/2009
Local currency			
BDMG (i)	10,912	13,842	16,606
BNDES	-	-	847
Working capital (ii)	74,618	-	-
Leases (iii)	5,741	1,027	-
	91,271	14,869	17,453
Current liabilities	34,046	5,165	5,453
Noncurrent liabilities	57,225	9,704	12,000

(i) Refers to financing using funds from the Development Incentive Fund (FINDES), granted by Banco de Desenvolvimento de Minas Gerais S.A. - BDMG (state development bank), to expand higher education operations. Funding obtained was invested in books, furniture, machinery, laboratory and IT equipment, construction, and logistics and IT infrastructures.

The total financing amount is R$15,000, bearing interest at the rate of 6% per year and adjusted based on IPCA (2009 - -4.31%; 2008 - 5.90%; 2007 - 4.46%), with a grace period of 24 months from December 2006 and repayable in 60 monthly installments. Interest rate decreases to 4% per year in case of timely payment of the first 12 installments.

(ii) Refer to working capital loan, being R$19,528 from secured account. Contractual borrowing costs are pegged to CDI variation, plus floating and fixed rates ranging from 2.05% to 2.70% per year. Guarantees provided include collateralization of shares and surety from group companies. The last maturity of such loans is in February 2018.

(iii) Certain equipment was leased under irreversible agreements subject to interest of 6.68% per year, with purchase option clauses, whose lease period ranges from 24 to 36 months. The last installment under the loan will be settled in June 2013. IUNI also had lease agreements, which were kept after the purchase, subject to contractual interest rates ranging from 5.54% to 24.16%.

The noncurrent portion matures as follows:

	12/31/2010	12/31/2009	01/01/2009
Maturity year:			
2010	-	-	3,000
2011	-	3,409	3,000
2012	31,788	3,295	3,000
2013	20,586	3,000	3,000
2014	1,315	-	-
2015	1,343	-	-
2016	833	-	-
2017	833	-	-
2018	527	-	-
	57,225	9,704	12,000

a) Changes in borrowings and financing

Changes in borrowings and financing are as follows:

	2010	2009
Balance as of January 1	14,869	17,453
Addition from IUNI	150,077	-
Other additions	79,179	1,027
Accrued but unpaid interest	(4,870)	2,563
Repayment of charges	(1,280)	(1,288)
Repayment of principal	(146,704)	(4,886)
	-	-
Balance as of December 31	91,271	14,869

b) Finance leases

Finance lease obligations are effectively guaranteed, since the leased asset is reversed to the lessor in case of default.

19. PAYROLL AND RELATED TAXES - CONSOLIDATED

	12/31/2010	12/31/2009	01/01/2009
Salaries payable	6,437	56	-
Social security tax (INSS)	6,516	3,485	2,776
Severance pay fund (FGTS)	2,679	630	448
Withholding income tax (IRRF)	3,388	1,527	1,684
Accrued vacation	12,874	8,012	8,174
Charges on accruals	3,802	2,685	2,745
Others	4,195	(32)	478
	39,891	16,363	16,305

Accrued payroll and charges were recorded in the statement of income under "Cost of services", "Selling expenses" and "General and administrative expenses", according to the employee's assignment.

Changes in payroll and related taxes are as follows:

	2009			
	Accrued vacation	Accrued 13th salary	Accrued charges	Total
Opening balance as of January 1, 2009	8,174	-	2,745	10,919
Additions	13,825	9,172	7,638	30,635
Amortization/write-offs	(13,987)	(9,172)	(7,698)	(30,857)
Balance as of December 31, 2009	8,012	-	2,685	10,697

	2010			
	Accrued vacation	Accrued 13th salary	Accrued charges	Total
Balance as of December 31, 2009	8,012	-	2,685	10,697
Additions	54,936	43,913	31,062	129,911
Amortization/write-offs	(50,074)	(43,913)	(29,945)	(123,932)
Balance as of December 31, 2010	12,874	-	3,802	16,676

20. ADVANCES FROM CUSTOMERS

	Consolidated		
	12/31/2010	12/31/2009	01/01/2009
Advances on sales of textbook collections (a)	-	9,661	5,665
Prepaid enrollment fees and tuitions (b)	6,089	2,290	1,709
Current	6,089	11,951	7,374

(a) Advances on the sale of textbook collections to be delivered throughout the next school year are allocated to revenue when the related collections are delivered.

(b) Advances on enrollment fees and/or tuitions for the school year that begins are allocated to revenue to the extent the services are provided.

21. TAXES IN INSTALLMENTS - CONSOLIDATED

	12/31/2010	12/31/2009	01/01/2009
Refis IV (a)	40,893	-	-
Municipal tax installment plans (b)	4,870	334	499
INSS installment plans (c)	6,635	81	591
Federal tax installment plans (d)	-	-	1,812
Total	52,398	415	2,902
Noncurrent	45,308	-	2,129
Current	7,090	415	773

(a) Tax Debt Refinancing Program (REFIS IV)

The Federal Revenue Service created on May 27, 2009, pursuant to Law 11941 and Federal Revenue Service (RFB)/National Treasury Attorney General (PGFN) Joint Administrative Rule 06/2009, the Special Tax Installment Plan called "REFIS IV". The option for the payment of taxes in installments as set out in said Law entails an irrevocable acknowledgment by a taxpayer of the debts to be included in such installment plan, which constitutes extrajudicial acknowledgment. The plan permits the payment of tax debts outstanding until November 30, 2008 and debts arising from tax assessment notices issued by the Federal Revenue Service in 180 monthly installments, and requires the withdrawal of any lawsuits challenging such debts.

Such installment plan provides for, without limitation, (i) the abatement of a certain percentage of fine and interest due, depending on the number of installments elected by the Company's subsidiaries, and (ii) the offset of tax loss carryforwards against the remaining fine and interest. The debt will be consolidated according to the terms established by the Federal Revenue Service.

In September to November 2009, the subsidiaries filed their option for the payment of 180 monthly installments, and so far have complied all the requirements to remain eligible for said plan.

The tax installment plan covers debts managed by the Federal Revenue Service and the National Treasury Attorney General, including the remaining consolidated debts of the REFIS and PAEX (exceptional tax installment plan), and the taxes in installment addressed by Article 38 of Law 8212/91 and Article 10 of Law 10522/02.

The subsidiaries' tax debts included in this new installment plan consist basically of social security contributions (INSS) and the remaining balances of previous tax installment plans related to business income tax (IRPJ), social contribution on net income (CSLL), withholding income tax (IRRF), social integration program tax on revenue (PIS), and social security funding tax on revenue (COFINS). The table below shows the adjusted debt amount in installments as of December 31, 2010:

	Consolidated
	December 31, 2010
Total outstanding debt	61,879
Decrease in fine, interest and legal charges under adhesion to installment plan	(12,986)
Utilization of tax loss carryforwards to abate fine and interest	(8,000)
	40,893
Current	2,998
Noncurrent	37,895

Under the program, the Company agreed to pay 180 monthly installments, and as of December 31, 2010 there are 166 installments payable. The balance of installments payable is adjusted on a monthly basis using the SELIC rate, and as of December 2010, R$1,942 had been paid as adhesion installments before debt consolidation.

The table below shows a summary of the net effects by subsidiary recognized in these consolidated financial statements:

Subsidiary	Consolidated Tax in installments	December 31, 2010
Fama Macapá	INSS, IRPJ, CSLL, IRRF, PIS and COFINS	2,175
Iuni	INSS, IRPJ, CSLL, IRRF, PIS and COFINS	10,823
Unic Primavera Nova	INSS, IRRF	748
Unic Primavera Antiga	INSS, IRRF	621
Unic Sinop	INSS, IRPJ, CSLL and IRRF	311
Unic Tangará Norte	INSS, IRRF	867
Unic Tangará Sul	INSS, IRPJ, CSLL, IRRF, PIS and COFINS	1,126
Unic ROO AE	IRPJ, CSLL and IRRF	140
Unic ROO FP	INSS, IRRF, PIS and COFINS	84
Unime Itabuna	IRPJ, CSLL, IRRF and COFINS	436
Unime Lauro de Freitas	INSS, IRPJ, CSLL, IRRF, PIS and COFINS	23,292
Unime Salvador	IRPJ, CSLL, IRRF, PIS and COFINS	270
Total current and noncurrent		40,893

The noncurrent portion matures as follows:

	Consolidated December 31, 2010
2012	2,976
2013	2,976
2014	2,976
2015	2,976
2016	2,976
2017	2,976
2018	2,976
2019	2,976
2020	2,976
2021	2,976
2022	2,976
2023	2,976
2024	2,183
Total noncurrent	37,895

The tax loss carryforwards utilized to settle tax debts total R$8,000 as of December 31, 2010.

(b) Municipal tax installment plans

(ii) Iuni

Refer to ISSQN tax assessment notices issued from April 2008 to June 2009. The total debt was divided into 36 installments; as of December 31, 2010, there are 23 installments payable in the amount of R$65, which are adjusted annually using the IPCA.

(iii) Unime Lauro de Freitas

Refer to the payment in installments of tax assessment notices issued in January 2002-July 2007, related to ISSQN. As of December 31, 2010, the outstanding balance totals R$2,322. The company has an agreement with the municipal government of Lauro de Freitas-BA to pay up to 90% of the debt balance with scholarships.

(iv) Other subsidiaries

Subsidiaries Unic Primavera Nova, Unic Primavera Antiga, Unic VG, Unic Tangará Norte, Fama Macapá and Unic Sinop joined tax installment plans totaling R$1,053, which have different installment amounts and payment periods.

(c) National Social Security Institute (INSS) installment plans

(i) Iuni

Currently there are two outstanding INSS installment plans:

PAEX article 1: Refers to the remaining 2000 REFIS balance. It was consolidated into 130 installments, and payment started in September 2006. There are 64 installments of R$39 each outstanding, adjusted on a monthly basis using monthly Long-term Interest Rate (TJLP).

Regular installment plan: Debt referring to INSS not paid in 2008 and 2009. The installment plan consists of 60 installments that started to be paid in November 2009. The amount of each installment is R$41, and there are 46 installments outstanding, adjusted by monthly SELIC.

(ii) Unime Lauro de Freitas

Regular installment plan: Debt referring to INSS not paid in 2008 and 2009. Initially there were 60 installments in September 2009, of which 44 installments of R$33 each, adjusted by monthly SELIC, remain payable.

(iii) Other subsidiaries

Subsidiaries Unime Itabuna, Unic Roo FP, Fama Macapá, Unime Salvador, Unic Tangará Norte and Unic Roo AE joined different installment plans, covering 2008 and 2009 debts, which total R$801 and have different installment amounts and payment periods.

Changes in tax installment payment plans are as follows:

	12/31/2010	12/31/2009
Opening balance	415	2,902
Addition from IUNI	53,610	-
Gain from tax amnesty	(453)	(889)
Utilization of tax losses	-	(135)
Utilization of negative tax base	-	(50)
Adjustment, net	2,098	-
Amortization/write-offs	(3,272)	(1,413)
Closing balance	52,398	415

22. TRADE ACCOUNTS PAYABLE - ACQUISITIONS

	Consolidated		
	12/31/2010	12/31/2009	01/01/2009
Current:			
Acquisition of FADOM	-	-	6,000
Acquisition of AESG and SESG	26	1,822	1,689
Acquisition of FATEC	37	35	32
Acquisition of FACTEF	-	-	2,108
Acquisition of CBTA	16	85	72
Acquisition of SÃO FRANCISCO	34	47	593
Acquisition of GK	-	250	-
Purchase of property in Ipatinga	2,089	1,560	1,567
Acquisition of UNIC TANGARÁ SUL	1,747	-	-
Purchase of land in Rondonópolis	205	-	-
	4,154	3,799	12,061
Noncurrent:			
Acquisition of UCES	684	609	443
Acquisition of AESG and SESG	-	2,105	2,535
Acquisition of CBTA	252	235	287
Acquisition of SÃO FRANCISCO	-	593	592
Purchase of property in Ipatinga	2,611	3,482	5,031
Acquisition of UNIC TANGARÁ SUL	2,949	-	-
	6,496	7,024	8,888
Total	10,650	10,823	20,949

Changes in payables - acquisitions are as follows:

	Consolidated	
	2010	2009
Opening balance	10,823	20,949
Additions	200,577	500
Interest/adjustments	2,506	895
Amortization/write-offs	(203,256)	(11,521)
Closing balance	10,650	10,823

Amounts recorded in noncurrent liabilities mature as follows:

	12/31/2010	12/31/2009	01/01/2009
Maturity year:			
2010	-	-	3,065
2011	-	3,286	2,473
2012	4,499	3,374	2,916
2013	1,997	364	434
	6,496	7,024	8,888

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23. RESERVE FOR TAX, LABOR AND CIVIL CONTINGENCIES AND ESCROW DEPOSITS

The Company and its subsidiaries are parties to lawsuits and administrative proceedings arising from the normal course of business. The provisions for losses on these lawsuits are estimated and adjusted by Management, based on the opinion of its legal counsel. Some escrow deposits were made related to these lawsuits, which can be recovered by the Company and its subsidiaries or utilized to settle potential unfavorable outcomes.

	Company								
	12/31/2010			12/31/2009			01/01/2009		
	Estimated loss	Escrow deposits	Net balance	Estimated loss	Escrow deposits	Net balance	Estimated loss	Escrow deposits	Net balance
Tax	-	-	-	-	-	-	-	(62)	(62)
Labor	-	-	-	-	-	-	-	-	-
Civil	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	(62)	(62)

	Consolidated								
	12/31/2010			12/31/2009			01/01/2009		
	Estimated loss	Escrow deposits	Net balance	Estimated loss	Escrow deposits	Net balance	Estimated loss	Escrow deposits	Net balance
Tax (a)	12,496	(7,155)	5,341	4,110	-	4,110	970	-	970
Labor (b)	16,162	(1,698)	14,464	1,033	(482)	551	20	(391)	(371)
Civil (c)	1,783	(27)	1,756	127	-	127	-	-	-
	30,441	(8,880)	21,561	5,270	(482)	4,788	990	(391)	599

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(a) On December 28, 2009, SUESC was notified by the Municipal Government of Rio de Janeiro of the collection of Real Estate Tax (IPTU) for the years 2004 to 2009, divided into 84 monthly installments. The municipal government claims that the IPTU was undercollected, as it was calculated as if the college was a nonprofit entity, but it ceased to be so in June 1998, when it became a corporation. Even though the Company is discussing this issue at administrative level, it decided to recognize a reserve of R$4,110 as a contra entry to net income for 2009, in the amount of R$1,196, plus the amount of R$2,914 as goodwill adjustment resulting from the acquisition of the college, which is based on asset appreciation and is classified as buildings.

IUNI is challenging in court the collection of taxes related to the immunity period with regard to social contribution linked to FGTS, according to Supplementary Law 110/2001, in the amount of R$2,783, and PIS on payroll in the amount of R$2,684. Three FGTS assessment notices in the amount of R$1,372 are also being discussed at administrative level.

Other reserves in the amount of R$1,547 refer to other taxes, discussed at administrative and judicial levels, with regard to the other Company's group companies.

(b) Refer to labor lawsuits filed by Company's former employees and teachers.

(c) Refer to lawsuits filed by students and alumni mainly claiming pain and suffering due to the delay in the issuance of degree and undue collection of tuitions and property damage as a result of damages to vehicles in the parking lot.

Reserves for tax, labor and civil contingencies are recognized based on the full amount of proceedings classified as probable loss, according to opinions of legal counsel, and tax contingencies are adjusted using the SELIC rate with a contra entry to the statement of income under "General and administrative expenses".

Changes in said reserves are as follows:

	2010	2009
Opening balance	5,270	990
Additions (*)	6,537	5,270
Addition from IUNI	24,325	-
Amortization	(2,243)	-
Write-offs	(3,448)	(990)
	30,441	5,270
Offset of escrow deposits	(8,880)	(482)
Closing balance	21,561	4,788

(*) In December 2010, the amount of R$2,684 relating to PIS on payroll for the period during which the company was established as a nonprofit entity - which IUNI is challenging in court - was reclassified from current liabilities under "Payroll and related charges".

a) Possible losses (contingencies)

The Company is a party to tax, labor and civil lawsuits whose risk of an unfavorable outcome is classified by management as possible, based on the assessment of its legal counsel, for which no reserve is recognized. The estimated amounts are broken down as follows:

	12/31/2010	12/31/2009	01/01/2009
Tax (*)	69,743	-	20
Labor	5,798	299	44
Civil	2,470	106	12
	78,011	405	76

(*) IUNI is challenging at judicial and administrative levels several tax assessment notices relating to federal and social security tax debts, of which the amount of R$63,743 is classified as a "possible" loss, according to legal counsel; the former owners are liable for the full amount in this account, according to a purchase and sale agreement entered into by the Company and IUNI on March 12, 2010.

SUESC has R$6,000 classified as a possible loss with regard to ISSQN tax assessment notice, which is being challenged before the municipal government of Rio de Janeiro.

24. OTHER PAYABLES

In consolidated, this balance consists basically of the obligation related to the onlending of student loans and transfer of students' portfolio.

The onlending of student loans refers to obligations related to the purchase of Uniminas, with a balance of R$3,755 in noncurrent liabilities (R$3,756 as of December 31, 2009 and R$4,207 as of January 1, 2009). These amounts will remain withheld as escrow when received for a period of five years.

The transfer of the students portfolio refers to the portfolio of payables over 180 days to be transferred to the former controlling shareholder of IUNI, as received. The balance as of December 31 is R$4,701 in the current portion.

25. SHAREHOLDERS' EQUITY

a) Capital

The Company's capital totals R$873,831 (R$821,020 as of December 31, 2009) and is comprised of 234,113,715 common shares and 232,125,907 preferred shares, as follows:

	Number of shares	
	Common	Preferred
As of January 1, 2009		
Total former treasury shares	113,591,226	99,938,716
Total treasury shares	946,100	5,676,600
	114,537,326	105,615,316
Capital increase on September 02, 2009	115,376,389	101,310,591
Increase in treasury shares	34,100	204,600
As of December 31, 2009		
Total former treasury shares	228,933,515	201,044,707
Total treasury shares	980,200	5,881,200
	229,913,715	206,925,907
Capital increase on September 24, 2010	4,200,000	25,200,000
Increase in treasury shares	251,036	1,506,216
As of December 31, 2010		
Total former treasury shares	232,882,479	224,738,491
Total treasury shares	1,231,236	7,387,416
Total shares	234,113,715	232,125,907

On September 2, 2009, PAP (Pitágoras Participações e Administrações S.A.) and the noncontrolling shareholders approved the capital increase in the Company, comprised of 115,376,389 common shares and 101,310,591 preferred shares, totaling a capital contribution of R$387,870, divided between R$366,623 as capital increase and R$21,247 as capital reserve.

On September 24, 2010, the Company issued shares, which made it possible the admission of IUNI's former controlling shareholder as shareholder. 4,200 units were issued, comprised of 4,200,000 common shares and 25,200,000 preferred shares, representing 6.31% of the Company's capital, as set forth as payment in IUNI purchase and sale agreement. The transaction gave rise to a capital increase of R$52,811.

The Company's authorized capital is represented by 500,000 shares.

b) Treasury shares

The share buyback is in conformity with Article 157, paragraph 4, of Law 6404/76, CVM Regulatory Instructions 10/80 and 390/03, and other relevant legislation.

In 2009, EDE acquired 34,100 units, comprised of 34,100 common shares and 204,600 preferred shares, for R$368.

In 2010, EDE acquired 293,800 units, comprised of 293,800 common shares and 1,762,800 preferred shares, for R$4.163.

In 2010, 42,764 units, comprised of 42,764 common shares and 256,584 preferred shares, were sold for R$859 as a result of the exercise of the stock option plan. A loss on said sale, in the amount of R$45, was recognized in the capital reserve.

The price of the units acquired in 2009 ranged from R$8.00 to R$12.00. In 2010, such price was R$14.00.

As of December 31, 2010, the Company had 1,231,236 units in treasury, the fair value of which was R$26,903 (980 thousand units as of December 31, 2009, the fair value of which was R$17,640).

c) Capital reserve

On June 24, 2009, the Board of Directors determined that R$0.09805 of each new share issued would be allocated to the establishment of a capital reserve. On September 2, 2009, the amount of the reserve was approved at R$21,247. Said reserve is presented in the amount of R$14,585, net of transaction costs of R$6,662 from the issuance of said shares.

The fair value of stock options granted under the plan approved on October 23, 2009 was recognized as an expense in 2010 and 2009 (periods in which the right became vested). The consideration is recognized under the caption “Capital reserve - stock option award” in shareholders' equity. The total amount recognized in 2010 was R$3,031 (R$377 as of December 31, 2009).

In 2010, 42,764 units were purchased under the stock option plan for the fair value of R$89, in consideration for the sale of treasury shares and the payment received upon option exercise in the amount of R$726.

d) Legal reserve

Recognized annually with the allocation of 5% of net income for the year, without exceeding 20% of capital. The objective of the legal reserve is to ensure the integrity of capital and can only be utilized to offset losses or increase capital.

e) Dividends and interest on capital

In 2009, dividends proposed by Management for the year 2008 and recorded in a separate account in shareholder’s equity on January 1, 2009 were paid in the amount of R$12,280.

On June 24, 2009, the Company’s General Meeting resolved to distribute interim dividends in the amount of R$12,051 relating to the Company’s retained earnings as of March 31, 2009.

The dividends were paid on September 15, 2009, based on the Company’s shareholder base at the closing of the trading session on June 25, 2009. The amount paid for each unit was R$0.395.

26. SHARE-BASED COMPENSATION PLAN

The Company approved on October 23, 2009 a stock option plan with the objective of retaining Company executives and aligning their interests with the interests of the shareholders and the Company. Independent directors, officers, and senior executives of the Company are eligible to the plan.

Options granted must not exceed the cap of 5 million common shares and 30 million preferred shares, corresponding to 5 million units, equivalent to 8.01% of the Company's capital on approval date.

The Board of Directors or the Human Resources Committee has set out the terms and conditions of each option in a stock option agreement signed by the Company and each beneficiary.

The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The exercise price will be paid by the beneficiaries to the Company at sight, upon the acquisition or subscription or as determined by the Board of Directors or the Human Resources Committee for each agreement. As of December 31, 2010, the prices established under the agreements range from R$16.00 to R$19.05.

Changes in the number of outstanding share purchase options and their corresponding weighted average prices for the year are as follows:

	2010		2009	
	Average exercise price per share - R$	Options	Average exercise price per share - R$	Options
As of January 1	17.22	1,000,000	-	-
Granted	18.59	2,380,000	17.22	1,000,000
Cancelled	18.69	(740,000)	-	-
Exercised	16.97	(42,764)	-	-
Past-due	-	-	-	-
As of December 31	18.13	2,597,236	17.22	1,000,000

In 2010, 42,764 units, corresponding to 42,764 common shares and 256,584 preferred shares, were exercised for the price of R$16.97 per unit.

Changes in the number of stock options are as follows:

	Number of options
Authorized options at beginning of period - October 23, 2009	5,000,000
Options granted in 2009	(1,000,000)
Balance of authorized options at the end of 2009	4,000,000
Options granted in 2010	(2,380,000)
Options cancelled in 2010	740,000
Balance of authorized options at the end of 2010	2,360,000

Stock options granted in the year ended December 31, 2010 present the following exercise prices and maturities:

Agreements granted in 2010

	Options			
Due in	Average exercise price per share - R$	Options	Average option fair value - R$	Options
2010	17.33	100,000	1.92	192,175
2011	18.38	484,000	1.46	704,367
2012	18.40	454,000	2.49	1,132,281
2013	18.40	454,000	3.59	1,630,252
2014	18.28	224,000	4.17	934,536
2015	19.05	124,000	3.12	386,499
	18.37	1,840,000	2.71	4,980,110

The weighted average fair value of options granted during the period, determined based on the Black-Scholes valuation model, was R$2.71 per option. Significant data included in the model was weighted average share price of R$18,37 as of the grant date, exercise price as previously stated, average volatility, average expected life of the option corresponding to 1,562 days, and average annual risk-free interest rate of 9.06%. The volatility measured at the standard deviation of continuously compounded share return is based on statistical analysis of daily share prices.

The fair value of stock options granted under the plan approved on October 23, 2009 was recognized as an expense in 2010 and 2009 (periods in which the right became vested). The consideration is recognized under the caption “Capital reserve - stock option plan” in shareholders' equity. The total amount recognized in 2010 was R$3,031 (R$377 in 2009).

27. INFORMATION BY BUSINESS SEGMENT

Kroton’s Management uses two operating segments and corporate expenses that are not allocated to the segments - which are revised by the Company’s management - in order to analyze and make its strategic decisions. The Company’s Management analyzes and approves the data, segmenting it based on the products offered in the education area, namely, K-12 education and higher education.

27.1. Information about reportable segment net income (loss), assets and liabilities

Information by business segment, as revised by the Board of Directors, for the year ended December 31 is as follows:

	2010					
	Higher education	K-12 education	Unallocated portion	Subtotal	Eliminations and adjustments	Total
Revenue	477,504	120,500	-	598,004	-	598,004
Cost of sales	(352,681)	(59,146)	-	(411,827)	-	(411,827)
Gross profit	124,823	61,354	-	186,177	-	186,177
Operating expenses:						
Selling expenses	(66,358)	(5,389)		(71,747)		(71,747)
General and administrative expenses	(32,441)	(3,605)		(36,046)		(36,046)
Corporate allocated expenses	(57,484)	(14,506)		(71,990)		(71,990)
Other expenses, net	-	-	(3,710)	(3,710)	-	(3,710)
Income from operations	(31,460)	37,854	(3,710)	2,684	-	2,684
Assets	911,143	119,736	63,907	1,094,786	-	1,094,786
Current and noncurrent liabilities	202,260	18,210	58,140	278,610	-	278,610

	2009					
	Higher education	K-12 education	Unallocated portion	Subtotal	Eliminations and adjustments	Total
Revenue	238,082	109,629	-	347,711	(6,532)	341,179
Cost of sales	(186,888)	(50,494)	-	(237,382)	6,532	(230,850)
Gross profit	51,194	59,135	-	110,329	-	110,329
Operating expenses:						
Selling expenses	(61,833)	(13,681)	-	(75,514)	-	(75,514)
General and administrative expenses	(6,330)	(20,838)	-	(27,168)	-	(27,168)
Corporate allocated expenses	(16,919)	(7,790)	-	(24,709)		(24,709)
Other expenses, net	-	-	(839)	(839)	-	(839)
Income from operations	(33,888)	16,826	(839)	(17,901)	-	(17,901)
Assets	739,992	104,997	24,016	869,005	-	869,005
Current and noncurrent liabilities	31,273	29,447	14,867	75,587	-	75,587

Information by business segment, as revised by the Board of Directors, for the year ended January 1, 2009 is as follows:

	Higher education	K-12 education	Subtotal	Eliminations and adjustments	Total
Assets	231,302	988,042	1,219,344	(685,329)	534,015
Current and noncurrent liabilities	69,870	72,727	142,597	(53,667)	88,930

Intersegment sales were made as sales between unrelated parties. The reported revenue from foreign related parties was measured in accordance with that presented in the statements of income/operations.

27.2. Reconciliation of assets and liabilities and reportable segments' revenues

a) Reconciliation of assets

The amounts reported to the Board of Directors as total assets are consistent with the balances recorded in the financial statements. These assets are allocated based on the segment's operations and the physical location of the asset.

The assets corresponding to the reported segments are reconciled with the total assets, as follows:

	12/31/2010	12/31/2009	01/01/2009
Reported segments' assets	1,094,786	869,005	1,219,344
Elimination of intersegment assets	-	-	(685,329)
Total assets	1,094,786	869,005	534,015

Eliminations of intersegment assets refer to common balances between Kroton's group companies.

b) Reconciliation of liabilities

The amounts reported to the Board of Directors as total liabilities are consistent with the balances recorded in the financial statements. These liabilities are allocated based on the segment's operations.

The liabilities corresponding to the reported segments are reconciled with the total liabilities, as follows:

	12/31/2010	12/31/2009	01/01/2009
Reported segments' liabilities	278,610	75,587	142,597
Elimination of intersegment liabilities	-	-	(53,667)
Total liabilities	278,610	75,587	88,930

Eliminations of intersegment assets refer to common balances between the Company's group companies.

c) Reconciliation of revenue

The analysis of revenues by category is as follows:

Analysis of revenue by category	2010	2009
Gross revenue from sale	91,546	73,891
Gross revenue from services	619,595	321,142
Deductions from gross revenue, mainly ProUNI scholarships and taxes on sales	(111,740)	(42,090)
Net revenue from sales	86,227	69,699
Net revenue from services	513,174	283,244

28. BREAKDOWN OF NET REVENUE

	2010	2009
Gross revenue:		
K-12 education	128,559	110,071
Higher education	582,582	284,962
	711,141	395,033
Deductions from gross revenue:		
K-12 education	(8,008)	(6,974)
Higher education	(103,452)	(46,880)
	(111,460)	(53,854)
Net revenue:		
K-12 education	120,551	103,097
Higher education	479,130	238,082
	599,681	341,179

29. EXPENSES BY NATURE

	2010	2009
Changes in inventories of Pitágoras books and collections and commercial books	(22,769)	(15,642)
Costs and expenses on rent and common area maintenance fees	(54,836)	(24,898)
Depreciation and amortization charges	(33,853)	(16,409)
Travel costs and expenses	(13,652)	(6,861)
Advertising costs	(24,969)	(21,576)
Personnel costs and expenses	(327,915)	(163,243)
Outside services	(53,052)	(34,904)
Utilities	(27,712)	(8,715)
Fees and contributions	(3,577)	(1,906)
Losses	(28,137)	(18,566)
Other costs and expenses	(38,175)	(46,360)
	(628,647)	(359,080)
Cost of sales and services	(434,404)	(230,850)
Selling expenses	(71,747)	(77,642)
General and administrative expenses	(121,222)	(49,749)
Other income (expenses) from operations, net	(1,274)	(839)
	(628,647)	(359,080)

30. FINANCIAL INCOME (EXPENSES)

Financial income (expenses) can be summarized as follows:

	2010	2009
Finance income:		
Interest on tuitions and DPV	10,375	2,498
Interest on investments	9,111	21,826
Discounts obtained	1,236	1,905
Decrease in charges - tax debt refinancing	455	-
	21,177	26,229
Financial expenses:		
Interest on borrowings	(6,150)	(1,268)
Interest and fines for late tax payment	(2,793)	-
Adjustment of acquisitions	(2,506)	(149)
Bank and collection fees	(1,379)	(3,708)
Interest and fines for late bill payment	(749)	(1,825)
Tax on financial transactions (IOF)	(203)	-
Other expenses	(3,227)	-
	(17,007)	(6,950)
Financial income (expenses)	4,170	19,279

31. EARNINGS PER SHARE

a) Basic

The basic loss per share is calculated by the division of the income attributable to the Company's shareholders by the weighted average number of units issued in the year.

	2010	2009
Loss attributable to owners of the Company	(29,623)	(8,013)
Weighted average number of common shares issued (thousands)	78,967	49,882
Basic loss per share	(0.38)	(0.16)

b) Diluted

The Company has no debt convertible into shares, and the stock options granted were not presumed to have been exercised, as they were anti-dilutive; their exercise price was higher than the average market price. Therefore, there are no potential units for dilution purposes.

32. BUSINESS COMBINATION

On March 12, 2010, the Company, through its subsidiary EDE, acquired 100% of IUNI's capital for R$188,859 - of which R$133,626 was paid at sight and R$55,233 was paid in installments - and 4,200 units in the Company. The 4,200 units issued as part of the payment to IUNI's former controlling shareholder generated a balance of R$551 as increase in goodwill and were based on the following steps:

a) Merger into EDE of IUNI's shares still held by the former controlling shareholder.

b) Issuance of new shares in EDE.

c) Merger of the shares issued by the Company, turning EDE into a wholly-owned subsidiary of the Company.

d) Issuance of new shares by the Company.

e) Delivery of the new shares to IUNI's former controlling shareholder.

The share mergers and the resulting issuance of new shares were carried out so as to secure to IUNI's former controlling shareholder a 6.31% interest in the Company's capital, as set out in the purchase and sale agreement.

The R$305,069 goodwill as of December 31, 2010 resulting from the acquisition is composed as follows:

- R$271,196 from future earnings.
- R$28,069 from customer portfolio.
- R$5,804 from appreciation of property, plant and equipment.

The acquisition cash flow was as follows:

	Balances as of 02/28/2010
Total assets	179,881
Total liabilities	(295,540)
Shareholders' deficit acquired	(115,659)
Goodwill generated by the transaction (without the issuance of units)	304,518
Total acquisition cost	(188,859)
Cash and cash equivalents of the acquired subsidiary	500
Acquisition cash flow less acquired subsidiary's cash	(188,359)

The balance sheet as of February 28, 2010 was considered the opening balance sheet, as follows:

	Book value	Acquisition adjustments	Fair value at acquisition date
Net assets (liabilities) acquired	(61,762)	(53,897)	(115,659)
Cash and cash equivalents	1,393	(539)	854
Trade accounts receivable	71,243	(31,361)	39,882
Inventories	192	-	192
Investment in non-controlled entity	1,600	-	1,600
Property, plant and equipment	42,431	(4,145)	38,286
Software	4,298	-	4,298
Goodwill	77,194	-	77,194
Other assets	15,234	2,341	17,575
Trade accounts payable	(5,437)	1,000	(4,437)
Borrowings and financing	(147,755)	(2,322)	(150,077)
Payroll and related taxes	(18,402)	(1,089)	(19,491)
Taxes payable	(63,809)	(761)	(64,570)
Contingencies	(7,679)	(16,646)	(24,325)
Other liabilities	(32,265)	(375)	(32,640)

Since the aforementioned information is based on a preliminary estimate of the fair value of the assets acquired and liabilities assumed, the final calculation may differ from these estimates. IUNI's former controlling shareholder contractually agreed to indemnify the Company against any contingencies dated earlier than the acquisition date and not originating in the ordinary course of business, and those related to the immunity period (earlier than February 2009), according to the limits established in the purchase and sale agreement.

As to the indemnified liabilities, there were no changes in the amount recognized for the indemnification assets as of December 31, 2010 because there were no changes in the results or assumptions used to develop the liability estimate.

The revenue included in the consolidated statement of income by segment since March 2010 includes net revenues generated by IUNI in the amount of R$245,205. IUNI contributed also with a profit of R$41,905 in the same period.

Had IUNI been consolidated since January 1, 2010, the consolidated statement of income would have presented revenue of R$393.645 and profit of R$74,771.

33. RELATED-PARTY TRANSACTIONS

The main intercompany balances and transactions are as follows:

a) Related-party credits and debts (subsidiary)

	Company					
	12/31/2010		12/31/2009		01/01/2009	
	Expenses	Revenues	Expenses	Revenues	Expenses	Revenues
Expense reimbursement (i)	6,662	-	6,662	-	-	-
Other (ii)	1,962	-	620	-	1,416	-
	8,624	-	7,282	-	1,416	-

(i) Refers to costs on the issuance of new Company shares paid by EDE.

(ii) Refer to other expenses incurred in the Company and paid by EDE.

	Consolidated			
	12/31/2010		12/31/2009	01/01/2009
	Due from related parties	Due from related parties	Due to related parties	Due from related parties
Sociedade Educacional Ltda. - SEL	-	252	-	-
Sistema Pitágoras de Ensino - SPE	-	-	160	5
	-	252	160	5

b) Other related-party transactions

The companies PSES, SPES and SEL (the latter up to 2009) use properties leased by CNG Patrimonial Ltda., which is owned by Kroton's founding shareholders. Monthly rents total R$112 (R$149 as of December 31, 2009, and R$149 as of January 1, 2009). These amounts are recorded in the income statement, in line account "Cost of services".

EDE entered into with Fundação Pitágoras an agreement for the sale of learning materials on an arm's length basis. In 2010 sales amounted to R$14.465 (R$8,326 in 2009). The balance of receivables in 2010 is R$6,262 (R$1,157 as of December 31, 2009, and R$4,149 as of January 1, 2009).

c) Compensation of key Management personnel

Key Management personnel refer to the members of the Board of Directors and the Supervisory Board, the CEO, the vice president, and the officers.

Compensation paid to key Management personnel is as follows:

	12/31/2010	12/31/2009	01/01/2009
Salaries	5,195	2,830	2,299
Variable compensation (*)	1,841	1,047	409
Share-based compensation plan - stock options	2,388	377	-
	9,424	4,254	2,708

(*) Variable remuneration defined in agreement with officers.

34. STATEMENTS OF CASH FLOWS

a) Cash and cash equivalents

The breakdown of cash and cash equivalents is stated in note 7.

b) Non-cash transactions

(i) In 2010, assets were acquired through the assumption of liabilities, by means of finance lease in the amount of R$4,714; see note 18.

(ii) In 2010, as part of the payment for the acquisition of IUNI, 4,200 units in the Company were issued, giving rise to a capital increase against goodwill of R$551 in EDE and R$52,811 in the Company, as stated in notes 16 and 32, respectively.

35. INSURANCE

The Company has a risk management program designed to limit risks, seeking in the market coverage that is compatible with their size and operations. Insurance coverage was obtained in the amount below to cover possible losses, considering the type of its activities, risks involved in the operations, and advice from insurance brokers.

As of December 31, 2010, the Company had insurance policies with single maximum compensation of R$127,646 (R$28,700 as of December 31, 2009, and R$24,000 as of January 1, 2009), covering electrical damages, riots, window breaking, electronic equipment, fire, robbery, lightning, explosions, windstorms, vehicle impact, and aircraft crashes.

36. FIRST-TIME ADOPTION OF IFRSs AND CPC - TRANSITION TO IFRSs

36.1. Basis for transition

These consolidated financial statements of Kroton for the year ended December 31, 2010 are the Company's first IFRS (International Financial Reporting Standards - “IFRSs”) annual consolidated financial statements and are based on all standards, revised standards and interpretations issued by the International Financial Reporting Standards (“IASB”) effective for the year ended December 31, 2010.

The date of transition adopted for the purpose of presentation of consolidated financial statements was January 1, 2009. Management prepared the opening balance sheets in accordance with IFRSs as of this date.

The consolidated financial statements for the year ended December 31, 2010 have been prepared in conformity with BR GAAP and filed with CVM. In 2008, after Law 11638/07 was enacted, the BR GAAP were substantially changed in order to align them to the IFRSs.

The reconciliations presented reconcile the previously disclosed BR GAAP consolidated financial statements as of December 31, 2009 with the respective amounts calculated in accordance with the IFRSs effective for the year ended December 31, 2010.

In the preparation of these consolidated financial statements in accordance with the revised version of IFRS 1, effective for the year ended December 31, 2010, the Company applied the mandatory exceptions and some of the optional exemptions from the full retrospective application of IFRSs effective for the year ended December 31, 2010, as set out in IFRS 1.

36.2. Optional exemptions adopted by the Company to the retrospective treatment of standards

The Company elected to apply the following exemptions from retrospective application:

a) Exemption relating to business combinations

The Company applied the business combinations exemption described in IFRS 1, effective for the year ended December 31, 2010, and thus did not restate business combinations that took place before January 1, 2009, the transition date. Accordingly, goodwill arising from acquisitions prior to this date was maintained at the balances net of amortization, determined as of December 31, 2008 under BR GAAP, and the respective balance was annually tested for impairment.

b) Exemption relating to the designation of financial assets and liabilities

The Company opted to classify and assess its financial instruments according to IAS 32 and IAS 39 on the date of transition to IFRSs, and retrospective analysis to the original contracting date of the current financial instruments were not done on the date of transition to IFRSs. All financial instruments contracted after the transition date were analyzed and classified on the contract date of the operations according to IFRSs.

c) Exemption relating to share-based payment transactions

The Company elected not to apply IFRS 2 to stock option plans dated prior to the transition date; IFRS 2 was fully adopted prospectively from the transition date.

The optional exemptions are not applicable to the Company.

36.3. Exceptions to retrospective application adopted by the Company

The Company adopted the following mandatory exceptions to retrospective application:

a) Exception relating to write-off of financial assets and liabilities

Financial assets and liabilities written off before January 1, 2009 as a result of transactions occurring before January 1, 2004 were not revised in accordance with IFRSs effective for the fiscal year ended December 31, 2009. The application of this exception had no significant impact on the present financial statements.

b) Exception relating to estimates

Estimates in accordance with IFRSs effective for the year ended December 31, 2010 and January 1, 2009 are consistent with the estimates made as of said dates in accordance with BR GAAP. There is no evidence that such estimates contain errors.

c) Exception relating to noncontrolling shareholders

Noncontrolling interests were recognized in accordance with IAS 27 from the date of transition to IFRSs.

The other mandatory exemptions prescribed by IFRS 1, effective for the year ended December 31, 2010, were not applied since there were no significant differences in relation to BR GAAP.

36.3.1 Restatement of the Company's financial statements due to the first-time adoption of CPC, and reconciliation of shareholder's equity and net income between CPC (Company) and IFRSs (Consolidated)

As permitted by CPC 43, the Company's Management is restating Consolidated comparative amounts in order to conform the accounting practices to those used in the IFRS consolidated financial statements. These changes in the practices affected the Consolidated shareholders' equity as of January 1 and December 31, 2009 and net income as of December 31, 2009, as shown below:

	Consolidated		
	Shareholders' equity		Net income (loss)
	December 31, 2009	January 1, 2009	December 31, 2009
Balance originally reported	795,072	434,010	(8,104)
Reversal of deferred charges - preoperating expenses	(2,541)	(2,584)	43
Reversal of proposed dividends		12,820	
Deferred income tax and social contribution	864	879	(15)
Company's balance (CPC)	793,395	445,125	(8,076)
Noncontrolling interests	23	(40)	63
Company's balance (CPC and IFRSs)	793,418	445,085	(8,013)

Below are described the main adjustments to the balance sheets and the statement of income, with the quantification of the effects of the transition.

a) Write-off of deferred charges

Until December 31, 2008, in accordance with BR GAAP, Kroton's group companies capitalized preoperating expenses in line item "Deferred charges". Under the IFRSs, preoperating expenses that cannot be attributed to the cost of property, plant and equipment or to the formation of intangible assets should be immediately recorded as an expense. Accordingly, the balances of R$2,541 and R$2,584 as of December 31, 2009 and January 1, 2009, as well as the amortization of R$43 recognized during 2009, were adjusted.

b) Income tax and social contribution

Changes in deferred income tax and social contribution represent the effects of deferred taxes on the adjustments required for the transition to IFRSs and resulted in deferred tax assets totaling R$864 and R$879 as of December 31, 2009 and January 1, 2009, respectively. The adjustment to net income was an expense of R$15 in 2009.

c) Accounting for dividends

According to the former BR GAAP, dividends are recognized at the end of the year even if they have not been officially declared, what will occur in the following year. According to the new accounting policies, dividends are recognized only when the legal obligation arises. Accordingly, any payment in excess of the mandatory minimum dividend is only recognized when declared. The amount of R$12,820 refers to dividends recognized in excess of the mandatory minimum dividends, declared after January 1, 2009, which were adjusted for recognition in the following year.

d) Segment reporting

IFRS 8 Operating Segments defines operating segments as components of a company for which separate financial information is available and which are evaluated regularly for assessing performance and allocating resources. Disclosure of profit or loss, total assets and other related information is required for each operating segment. IFRS 8 requires presentation of segment data in accordance with the internal information used by Management to make operating decisions, including the allocation of resources and the performance of the segments. Furthermore, this standard requires annual disclosure of information on revenues from the company's products or services, countries where the revenues or assets are generated, and major customers.

e) Reclassifications

Under BR GAAP, deferred income tax assets and liabilities are not offset and are segregated between current and noncurrent. For IFRS purposes, deferred tax assets and liabilities are offset against each other when there is a legal right of set-off and are classified as noncurrent.

Under BR GAAP, discounts for timely payment are recorded in financial expenses. For purposes of presentation under IFRSs, these amounts are charged to the gross revenue.

f) Earnings per share

Under BR GAAP, earnings (loss) per share were presented only in the Company's financial statements and were not presented in the consolidated financial statements. Earnings (loss) per share was calculated based on the number of shares outstanding at the balance sheet dates. Information was presented per thousand shares, which, in general, is the minimum amount of shares that may be traded on BM&FBOVESPA.

Under the IFRSs, earnings per share is presented based on Kroton's preliminary consolidated net income (loss), based on the average amount of shares outstanding during the year. Diluted earnings per share are also presented, where applicable, considering the potential impact of the dilution of outstanding stock options.

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37. RECONCILIATION OF PROFIT (LOSS) AND SHAREHOLDERS' EQUITY OF THE INTERIM FINANCIAL STATEMENTS

These interim financial statements have been subjected to special review procedures applied by the Company's independent auditors, in accordance with CVM requirements for interim financial statements - Standard on Auditing Procedure (NPA) 06 of the Brazilian Institute of Independent Auditors (IBRACON) - including the adjustments arising from the adoption of the new accounting policies, which were not, therefore, subjected to auditing procedures.

The reconciliation of the effects of the adjustments is as follows:

a) Consolidated net income (loss)

	12/31/2010					12/31/2009				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Net income (loss) previously reported	18,822	(23,937)	(8,677)	(10,475)	(24,267)	24,905	6,221	8,962	(48,129)	(8,041)
Reversal of amortization of deferred charges - preoperating expenses	65	65	65	63	258	-	-	-	43	43
Amortization of customer portfolio	(562)	(1,684)	(1,684)	(1,684)	(5,614)	-	-	-	(15)	(15)
Restated net income (loss)	18,325	(25,556)	(10,296)	(12,096)	(29,623)	24,905	6,221	8,962	(48,101)	(8,013)

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b) Shareholders' equity (consolidated)

	12/31/2010					12/31/2009				
	Balance as of 12/31/2009	1st quarter	2nd quarter	3rd quarter	4th quarter	Balance as of 01/01/2009	1st quarter	2nd quarter	3rd quarter	4th quarter
Shareholders' equity previously reported	795,072	814,508	787,401	832,480	823,209	434,010	458,570	452,717	842,887	795,072
Reversal of deferred charges - preoperating expenses	(2,541)	(2,541)	(2,541)	(2,541)	(2,541)	-	-	-	-	(2,541)
Deferred income tax and social contribution	864	864	864	864	864	-	-	-	-	864
Dividends	-	-	-	-	-	11,115	11,115	-	-	-
Reversal of amortization of deferred charges - preoperating expenses	-	65	130	195	258	-	-	-	-	-
Amortization of customer portfolio	-	(562)	(2,246)	(3,930)	(5,614)	-	-	-	-	-
Restated shareholders' equity	793,395	812,334	783,608	827,068	816,176	445,125	469,685	452,717	842,887	793,395

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c) Net income (loss) - Company

	12/31/2010					12/31/2009				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Net income (loss) previously reported	18,822	(23,937)	(8,677)	(10,475)	(24,267)	24,905	6,221	8,962	(48,129)	(8,041)
Effect on equity in subsidiaries	(497)	(1,619)	(1,619)	(1,621)	(5,356)	-	-	-	28	28
Restated net income (loss)	18,325	(25,556)	(10,296)	(12,096)	(29,623)	24,905	6,221	8,962	(48,101)	(8,013)

d) Shareholders' equity (Company)

		12/31/2010					12/31/2009			
	Balance as of 12/31/2009	1st quarter	2nd quarter	3rd quarter	4th quarter	Balance as of 01/01/2009	1st quarter	2nd quarter	3rd quarter	4th quarter
Shareholders' equity previously reported	816,131	834,953	811,016	855,151	844,675	455,078	479,983	474,153	864,323	816,131
Effect on equity in subsidiaries	28	(497)	(3,238)	(3,735)	(5,356)	-	-	-	-	28
Effect of adjustment to deferred charges	(1,705)	(1,677)	(1,677)	(1,677)	(1,677)	-	-	-	-	(1,705)
Dividends	-	-	-	-	-	11,115	11,115	-	-	-
Reclassification of treasury shares	(21,436)	(21,436)	(25,599)	(25,599)	(24,740)	(21,068)	(21,413)	(21,436)	(21,436)	(21,436)
Reclassification of stock option award	377	843	1,984	2,928	3,274	-	-	-	-	377
Restated shareholders' equity	793,395	812,186	782,486	827,068	816,176	445,125	469,685	452,717	842,887	793,395

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38. APPROVAL OF THE FINANCIAL STATEMENTS FOR ISSUANCE

These individual and consolidated financial statements of the Company were approved for issuance by the Board of Directors at the meeting held on March 18, 2011.

2010 BALANCE

Dear Shareholders,

In accordance with applicable legislation, the Management of Kroton Educacional S.A. - "Kroton" or "Company" - presents its Management Report and the Company's consolidated Financial Statements for the fiscal year ended December 31, 2010, compared to fiscal year 2009. The consolidated financial statements were prepared and are presented in compliance with the accounting principles adopted in Brazil, including the pronouncements issued by the Accounting Standards Board (CPC). The consolidated financial statements were also prepared and are presented according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

About Kroton

Kroton Educacional S.A. (BM&FBovespa: KROT11) is one of the largest private and profit-making educational organizations, operating in the Brazilian education sector for over 40 years. It has a comprehensive and distinguished business model that serves the Post-secondary and K-12 sectors. The Company is present in the entire national territory and has 37 post-secondary education campuses located in 10 Brazilian states and 27 cities, serving 85.4 thousand students as at December 31, 2010. In the K-12 segment, Kroton operates in the private and public sectors, serving 720 Partner Schools in all Brazilian states, which had approximately 265,000 students at the end of 2010.

Message from Management

Kroton believes that 2010 was marked by one of the most important events since its IPO three years ago. In March, we completed one of the largest transactions in the Brazilian education sector with the acquisition of IUNI Educacional S.A., which resulted in a 100% increase in our post-secondary education student base.

Since the acquisition, the key objective of 2010 was to integrate both companies by creating a unique and complete operational platform. With that purpose we developed an integration project with 15 task forces that designed all processes and defined all parameters and systems of the resulting company.

Two projects implemented in August 2010 were key to a successful integration: (a) the implementation of a new Educational Model for Post-secondary Education, and (b) the unification of financial ERPs and integrated planning and control process. As a result, in the second half of the year, there were significant positive impacts on academic and management quality, as well as on our operating margins.

After the integration, we are certain that our Company has become more solid, with a more dynamic organizational structure and more efficient corporate processes. Therefore, we believe we are prepared to start a new inorganic growth cycle that includes, among other initiatives, entering the Distance Learning segment and acquiring Post-secondary Education institutions in the coming years.

Supported by these achievements and growth plans already underway, we started 2011 with a positive forecast and focused on continuing to play a major role in the Brazilian education sector, strengthening our relationship with all *stakeholders*.

Macroeconomic Environment

In 2010, the Brazilian economy recorded a 7.5% increase in the Gross Domestic Product (GDP), a significantly higher figure than that recorded in 2009 and the highest since 1986, as disclosed by the Brazilian Institute of Geography and Statistics (IBGE).

The unemployment rate decreased from 6.8% in December 2009 to 5.3% in December 2010. This all-time low unemployment rate contributed to the record high increase in consumption, also adjusted by credit expansion.

The consumer price index (IPCA) went up to 5.9% at the end of 2010. The inflation will probably reach higher levels than the Central Bank's target for 2011, given that market expectations are around 5.9% (FOCUS).

The economy boom forced the Central Bank to adjust the monetary policy to a more restrictive one. The base interest rate—which had already been raised from 8.75% to 10.75% in 2010—was raised once again in March 2011, to 11.75%.

The Real continued to appreciate throughout 2010, with a 4.3% appreciation over the U.S. dollar, ending the year at R$1.67.

Kroton believes that the current Brazilian macroeconomic scenario could result in a higher demand for professional specialization and qualification, positively impacting the education sector.

Acquisition of IUNI Educacional S.A.

On March 12, 2010, Kroton completed the acquisition of 100% of the capital stock of IUNI Educacional S.A. (“IUNI”), creating one of the largest educational groups in the country. IUNI was one of the main Post-secondary Education companies in Brazil, originating from Universidade de Cuiabá and founded in 1988. In March 2010, IUNI had a significant position in the midwestern, northeastern and northern regions of Brazil, serving approximately 42,000 students.

Soon after signing the acquisition agreements, Kroton started developing the integration project, using the *Post Merger Integration* (PMI) method. The project took 120 days to complete and involved all of the company's divisions.

The strategic and geographic complementarity of both operations and the use of best practices adopted by Kroton and IUNI allowed for the creation of a nationwide educational institution, significantly leveraging the synergies and continuous expansion capacity.

Operational Performance

In the Post-secondary Education segment, the Company ended 2010 with 85,367 students, of which 76,253 were enrolled in undergraduate courses and 9,114 were enrolled in graduate courses. The annual growth in the number of Post-secondary Education students was 95.7%, mainly due to the acquisition of IUNI in March 2010. The number of dropout students in the year was 19,177, and the number of students who graduated was 20,511. New students totaled 39,251.

In May 2010, the Ministry of Education (MEC) announced a provisional measure that amended the Financing Fund for Post-secondary Education Students, the "New FIES", which should have a significant impact on the sector's growth. Since the beginning of the program, the Company has invested in a supporting structure for students, facilitating their access to the New FIES also during entrance exams. In December 2010, more than 5,000 Kroton students had already signed agreements with the New FIES.

In K-12 Education, the Company ended 2010 with 720 Partner Schools in its education networks throughout Brazil, serving around 265.0 thousand students, which represented a 16.9% increase when compared to the 226.6 students served in 2009. In the private sector, the Pitágoras Network is present in all Brazilian states. In the public sector, the Company operates through the Projecta brand with the purpose of providing high-quality education to Brazilian cities by means of management programs, educational material and educational evaluations.

Financial Performance

Gross Revenue - Kroton ended fiscal year 2010 with a total gross revenue of R$711.1 million, an 80.0% increase versus 2009, basically due to the acquisition of IUNI in March 2010.

Deductions from Gross Revenue - Deductions from the Company's gross revenue in 2010 totaled (R$111.5 million), and consisted of scholarships granted by the ProUni program (R$51.8 million), Post-secondary Education Taxes (R$11.8 million), taxes on school operations (R$3.3 million), returns (R$8.6 million) and discounts granted (R$36.0 million).

Net Revenue - The Company ended 2010 with a net revenue of R$599.7 million, a 75.8% increase over 2009 in line with the gross revenue performance, i.e. reflecting the acquisition of IUNI in March 2010.

Cost of Goods Sold and Services Rendered - In 2010, Kroton's total costs reached R$434.4 million, accounting for 72.4% of total net revenues. As a result of the larger share of post-secondary operations in the business mix, the cost of services provided accounted for 94.8% of these costs.

- Cost of goods sold, which is comprised of the costs associated with the publishing and printing of educational materials sold to Partner Schools in the K-12 network, totaled R$22.8 million, representing 18.9% of the segment's net revenue. The 45.6% year-on-year increase is associated to the operation's growth and initiatives to improve the K-12 structure in order to ensure better efficiency in the coming years.

- Cost of services provided, which is mainly related to operating costs of the education units, totaled R$411.6 million in 2010, a 91.3% increase over the previous year due to the higher number of units and students served after the acquisition of IUNI and to non-recurring events related to the integration process.

Gross Income and Gross Margin - Gross income reached R$165.3 million, a 35.4% increase over 2009. Gross margin reached 27.6% in 2010, a 7.0 p.p. reduction over the previous year, reflecting the increase in costs and the non-recurring events in the period.

Operating expenses - Kroton's Operating expenses totaled R$196.5 million in 2010. These operating expenses are comprised of selling expenses (including the provision for doubtful accounts), personnel expenses, general and administrative expenses, other operating revenue (expenses) and goodwill amortization.

- Selling Expenses: comprised of expenses related to marketing activities, copyright and provision for doubtful accounts (PDD). Together, these expenses totaled R$71.6 million, a 7.6% decrease when compared to 2009, whereas the provision for doubtful accounts alone accounted for 4.7% of the Company's net revenue in 2010.

- Personnel Expenses: include salaries and other charges related to the corporate structure and other personnel-related expenses. The year-on-year increase of 159.2% in personnel expenses was mainly due to the integration process carried out in 2010, which also involved a high number of dismissals in various areas of the Company.

- General and Administrative Expenses: these basically include outsourced services, training, travel, and rental expenses. In 2010, these expenses totaled R$70 million, a 133.4% increase due to, among other factors, the commissioning of consulting firms that worked on the integration project.

Financial Result- The financial result reached R$4.2 million in 2010, despite the higher indebtedness level throughout the year, including debts related to tax liabilities under the Fiscal Recovery Program (REFIS).

Income Tax and Social Contribution - The amount paid as Income Tax and social contribution totaled R$7.7 million in 2010.

Net Income - In 2010, Kroton registered an accounting loss of R$29.6 million.

Capital Markets

Kroton's *units* (KROT11) have been listed in the Level 2 segment of the São Paulo Stock, Commodities and Futures Exchange (BM&FBovespa) since July 2007 and are part of the Special Corporate Governance Stock Index (IGC) and the Special *Tag Along* Stock Index (ITAG). The *units* were traded in 100% of the sessions in 2010, reaching an average daily trading volume of R$2.2 million. On December 30, 2010, the securities were priced at R$21.85 per *unit*, equivalent to a market value of R$1.4 billion. During 2010, the *units* appreciated by 21.4%, whereas in the same period the Ibovespa rose 1.0%, the IGC, 12.5%, and the ITAG, 11,7%. Kroton's *units* are currently monitored by 11 domestic and foreign research brokers..

Corporate Governance

Kroton has always adopted an ethical, responsible and transparent attitude in business administration, and seeks to align its corporate governance standards to the best market practices in order to secure the rights of shareholders through an equal and transparent treatment. The Board of Directors is responsible for generally directing the business and is comprised of nine members, of which two are independent. In addition, as the Company is constantly seeking to improve its governance standards, Kroton has installed four committees: Financial and M&A, Human Resources and Compensation, Academic and Institutional and Audit.

Adoption of IFRS

These are the first Financial Statements under the International Financial Reporting Standards (IFRS) and the new accounting rules issued for 2010 by the CPC. The effects of the first-time adoption are described in note 36. Note 32 highlights the effect of CPC 15 (business combination) retroactively applied to the allocation of part of the goodwill from the acquisition of IUNI to fixed assets (R$5.8 million) and to the customer portfolio (R$28.1 million), generating an additional amortization of R$5.6 million for 2010. The amount of remnant goodwill is R$271.2 million.

Independent Audit

In accordance with CVM Instruction 381/2003, we inform that in the fiscal year ended December 31, 2009, Deloitte Auditores Independentes provided the following services to the Company: Audit services for the separate (Kroton Educacional S.A.) and consolidated financial statements related to the fiscal year ended December 31, 2010, prepared under the Accounting Principles Adopted in Brazil; Revision of internal controls; Special Revision of Quarterly Information, prepared under the Accounting Principles Adopted in Brazil; accounting audit of the separate (Kroton Educacional S.A.) and consolidated financial statements under the *International Financial Reporting Standards*(IFRS). In addition, the Company commissioned the accounting audit service for the balance sheet of IUNI Educacional S.A. as of February 28, 2010. The accounting audit was started and completed in 2010 in the amount R$217 thousand (26.8% of the total).

Commitment Clause

Kroton Educacional is subject to the rules of the Market Arbitration Chamber, in accordance with Article 46 of the Company's Bylaws.

Acknowledgment

We appreciate the support and participation of our shareholders, students, customers, employees, suppliers, government agencies and the financial community in the results achieved so far.

For more details on the analysis of our 2010 results, go to www.kroton.com.br/ri.

MANAGEMENT

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