(A free translation of the original in Portuguese)

Kroton Educacional S.A. (Parent Company and Consolidated)

Financial Statements at December 31, 2008 and 2007 and Report of Independent Auditors

(A free translation of the original in Portuguese)

Report of Independent Auditors

To the Supervisory Board and Stockholders
Kroton Educacional S.A.

1 We have audited the accompanying balance sheet of Kroton Educacional S.A. ("the Company") and the consolidated balance sheet of Kroton Educacional S.A.and its subsidiaries at December 31, 2008 and 2007and the related statements ofoperations, of changes in stockholders' equity, of cash flows and of value added of the Company and the related consolidated statements of operations, of cash flows and of value added for the year ended December 31, 2008 and the period from June 1 to December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2 We conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Company, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Kroton Educacional S.A. and of Kroton Educacional S.A.and its subsidiaries at December 31, 2008 and 2007 and the results of its operations, the changes in stockholders' equity, its cash flows and the value added to the Company's operations , and the consolidated results of operations, cash flows and value added to the operations of the Company and its subsidiaries, for the years then ended, as well as the consolidated results of its operations and its consolidated cash flows and value added for the period from June 1 to December 31, 2007, in accordance with accounting practices adopted in Brazil.

4 As discussed in Notes 1(a) and 2 to the financial statements, during 2007 the Company and its subsidiaries were involved in corporate restructuring activities, which impair the comparability of the consolidated financial statements between the years presented.

Belo Horizonte, March, 23 2009

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

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

Kroton Educacional S.A.

Balance Sheets at December 31

In thousands of reais (A free translation of the original in Portuguese)

		Parent company		Consolidated	
Assets	**Note**	**2008**	**2007**	**2008**	**2007**
			(Note 2.1)		(Note 2.1)
Current assets					
Cash and cash equivalents		5	201	9,114	2,455
Marketable securities	3			115,104	322,827
Accounts receivable	4			61,689	30,427
Inventories	5			10,720	8,742
Taxes recoverable		1		5,051	3,063
Prepaid expenses				448	290
Deferred taxes	11a			2,486	1,891
Advance to suppliers	6			14,456	4,125
Other accounts receivable				5,303	6,996
		6	**201**	**224,371**	**380,816**
Non current					
Deferred taxes	11a			9,246	13,078
Receivables from associated companies	7			939	206
Judicial deposits	18	62		391	1,064
Other				72	
		62		**10,648**	**14,348**
Investments	8	462,184	429,246		
Property and equipment	9			133,736	37,952
Intangible assets	10	7,191	9,295	165,315	70,126
Deferred charges				2,584	160
		469,375	**438,541**	**301,635**	**108,238**
Total assets		**469,443**	**438,742**	**536,654**	**503,402**

Liabilities and stockholders' equity	Note	Parent company 2008	Parent company 2007	Consolidated 2008	Consolidated 2007
			(Note 2.1)		(Note 2.1)
Current liabilities					
Suppliers	12		175	22,528	7,721
Loans and financing	13			5,453	1,429
Salaries and social charges				16,305	9,881
Income tax and social contribution				188	4,661
Taxes payable				1,703	1,114
Advances from customers	14			7,374	7,843
Tax recovery program	17			773	
Accounts payable - acquisitions	15			10,494	9,000
Dividends proposed		12,949		12,949	
Other accounts payable	16			411	17
		12,949	**175**	**78,178**	**41,666**
Non current					
Loans and financing	13			12,000	15,628
Debts with related parties	7	1,416	1,100	1,094	
Provision for contingencies	18			990	20
Advances from customers	14				4
Tax recovery program	17			2,129	2,057
Accounts payable - acquisitions	15			3,857	6,500
Other accounts payable	16			4,436	54
		1,416	**1,100**	**24,506**	**24,263**
Minority interest				**(40)**	**6**
Stockholders' equity	19				
Capital		454,397	454,397	454,397	454,397
Treasury shares				(21,068)	
Legal reserve		681		681	
Accumulated losses			(16,930)		(16,930)
		455,078	**437,467**	**434,010**	**437,467**
Total liabilities and stockholders' equity		**469,443**	**438,742**	**536,654**	**503,402**

The accompanying notes are an integral part of these financial statements

Kroton Educacional S.A.

Statements of Operations

In thousands of reais, except net income (loss) per share (A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		Year ended December 31,		Year ended December 31,	Period from June 1 to December 31,
		2008	2007 (Note 2.1)	2008	2007 (Note 2.1)
Gross services and products					
Basic educational network				97,164	41,500
Higher education				209,215	48,551
Other				525	1,473
				306,904	**91,524**
Deductions from gross revenue (mainly material returns, refunds and taxes)					
Basic educational network				(6,403)	(2,600)
Higher education				(20,943)	(1,383)
				(27,346)	**(3,983)**
Net operating revenue				**279,558**	**87,541**
Cost of services/products					
Cost of services rendered	**20**			(168,094)	(48,897)
Cost of products sold				(11,830)	(5,501)
Gross profit				**99,634**	**33,143**
Operating income (expenses)					
Selling		(1)		(27,055)	(11,684)
Personnel				(12,514)	(4,127)
General and administrative		(221)	(22,060)	(22,797)	(38,392)
Management remuneration				(2,708)	(584)
Other, net			(2,298)	2,293	(1,974)
		(222)	(24,358)	(62,781)	(56,761)
Operating profit (losses) before equity in results and financial result (carried forward)		**(222)**	**(24,358)**	**36,853**	**(23,618)**

Kroton Educacional S.A.

Statements of Operations

In thousands of reais, except net income (loss) per share **(continued)**

	Note	Parent company		Consolidated	
		Year ended December 31,		Year ended December 31,	Period from June 1 to December 31,
		2008	2007	2008	2007
Operating profit (loss) before equity in the results and financial result (brought forward)		**(222)**	**(24,358)**	**36,853**	**(23,618)**
Results from stockholdings					
Equity in results	**8**	32,938	10,423		
Amortization of goodwill		(2,105)	(1,228)	(10,196)	(2,545)
Financial result	**21**				
Financial expenses		(51)	(1,420)	(13,565)	(7,677)
Financial income				27,490	17,813
Income (loss) before income tax, social contribution and minority interest		**30,560**	**(16,583)**	**40,582**	**(16,027)**
Income tax and social contribution	**11(b)**				
For the year				(6,838)	329
Deferred				(3,238)	(887)
Minority interest				54	2
Net income (loss) for the year/period		**30,560**	**(16,583)**	**30,560**	**(16,583)**
Shares at the end of the year		**213,529,942**	**220,152,642**		
Net income (loss) for the year per thousand shares at the end of the year R$		**0.14**	**(0.08)**		

The accompanying notes are an integral part of these financial statements

Kroton Educacional S.A.
(parent company)

Statements of Changes in Stockholders' Equity

In thousands of reais (A free translation of the original in Portuguese)

	Capital	Legal reserve	Accumulated losses	Total
At December 31, 2006	**20**		**(347)**	**(327)**
Increase in capital	454,377			454,377
Loss for the year			(16,583)	(16,583)
At December 31, 2007	**454,397**		**(16,930)**	**437,467**
Net income for the year			30,560	30,560
Legal reserve		681	(681)	
Dividends proposed			(12,949)	(12,949)
At December 31, 2008	**454,397**	**682**		**455,078**

The accompanying notes are an integral part of these financial statements

Kroton Educacional S.A.

Statements of Cash Flows

In thousands of reais (A free translation of the original in Portuguese)

	Parent compan		Consolidated	
	Year ended December 31,		Year ended December 31,	Period from June 1 to December 31,
	2008	2007	2008	2007
Cash flows from operating activities				
Net income (loss) for the year/period	**30,560**	**(16,583)**	**30,560**	**(16,583)**
Adjustments to reconcile results to available funds used in operating activities				
Equity in the results	(32,938)	(10,423)		
Depreciation and amortization	2,105	1,228	19,541	4,472
Minority interest			(45)	3
Deferred income tax and social contribution			3,238	887
Income tax and social contribution for the period			6,838	329
Result from sale of permanent assets		2,298	461	2,631
Changes in assets and liabilities				
(Increase) decrease in marketable securities			207,723	(322,827)
(Increase) decrease in accounts receivable			(14,866)	7,480
Increase in inventories			(1,978)	(870)
Increase in other accounts receivable	(64)		(8,253)	(9,590)
(Decrease) increase in suppliers	(175)	115	12,764	(250)
Increase in advance from customers			4,686	1,685
Decrease in other accounts payable			(20,181)	(7,215)
Net funds provided by(used in) operating activities	**(512)**	**(25,663)**	**240,479**	**(339,849)**
Cash flows from investing activities				
Payment of capital		396,051		395,695
Purchase of property and equipment			(78,287)	(11,286)
Investments in subsidiaries		(373,318)		
Acquisitions of new colleges			(82,121)	(20,751)
Additions to intangible/deferred assets			(43,874)	(12,183)
Cash and cash equivalents provided by corporate restructuring and acquisitions				15,187
Net funds provided by (used in) investing activities		**25,031**	**(186,885)**	**366,662**
Cash flows from financing activities				
Treasury shares acquired			(21,068)	
Payments of loans and financing			(9,275)	(20,894)
Interest paid for loans			(289)	(2,268)
Changes in loans with related companies	316	831	1,094	(1,198)
Net funds provided by (used in) financing activities	**316**	**831**	**(29,538)**	**(24,360)**
Net increase (decrease) in cash and cash equivalents	**(196)**	**199**	**6,659**	**2,453**
Cash and cash equivalents at the beginning of the year	201	2	2,455	2
Cash and cash equivalents at the end of the year	5	201	9,114	2,455
Net increase (decrease) in cash and cash equivalents	**(196)**	**199**	**6,659**	**2,453**

The accompanying notes are an integral part of these financial statements

Kroton Educacional S.A.

Statements of Value Added

In thousands of reais (A free translation of the original in Portuguese)

	Parent compan		Consolidated	
	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2008	Period from June 1 to December 31, 2007
Revenue				
Basic educational network			93,547	41,789
Higher education			193,253	48,383
Constitution of allowance for doubtful accounts			(5,718)	(1,825)
Other revenues			398	8
Inputs acquired from third parties				
Cost of products and services			(42,572)	(16,962)
Materials, energy, third party services and other	(222)	(24,358)	(32,757)	(45,509)
Gross value added	**(222)**	**(24,358)**	**206,151**	**25,892**
Depreciation and amortization	(2,105)	(1,228)	(19,541)	(4,472)
Net value added	**(2,327)**	**(25,586)**	**186,610**	**21,412**
Value added received in transfer				
Equity in the results	32,938	10,423		
Financial revenue			27,490	17,813
Total value added to be distributed	**30,611**	**(15,163)**	**214,100**	**39,225**
Distribution of value added				
Personnel				
Direct remuneration			(94,206)	(27,121)
Benefits			(5,002)	(1,446)
FGTS			(9,077)	(2,942)
Taxes, rates and contributions				
Federal			(34,563)	(8,792)
Municipal			(6,073)	(1,830)
Remuneration of third party capital				
Interest	(51)	(1,420)	(13,565)	(7,677)
Rental			(18,043)	(4,597)
Copyrights			(3,065)	(1,404)
Remuneration of own capital				
Retained earnings and losses for the year	(681)	16,583	(681)	16,583
Absorption of accumulated losses	(16,930)		(16,930)	
Dividends	(12,949)		(12,949)	
Minority interest in retained earnings			54	1
Value added distributed	**(30,611)**	**15,163**	**(214,100)**	**(39,225)**

The accompanying notes are an integral part of these financial statements

1 Operations

Kroton Educacional S.A. (hereinafter "Kroton", "Parent Company" or "Company"), is headquartered in the city of Belo Horizonte. Its main objective is the participation, as partner or stockholder, in companies engaged in: (i) management of pre-school, fundamental, medium, supplemental ("supletivo"), entrance examination preparatory, higher, professional, post-graduation, and unrestricted educational programs and other related educational activities; and (ii) the wholesale and retail distribution, import and export of didactic and para-didactic books, magazines and other publications for pre-school, fundamental, medium, supplemental ("supletivo"), entrance examination preparatory, higher, professional, post-graduation and unrestricted educational programs and/or other related educational activities, as well as the licensing of school-related and pedagogical products. The Company performs its activities through its subsidiary Editora e Distribuidora Educacional Ltda. ("EDE").

With the capital payment made on May 28, 2007, by the shareholder Pitágoras Administração e Participações S.A. ("PAP"), Kroton owns 100% of the capital of EDE.

On July 23, 2007, Kroton entered the São Paulo Stock Market (Bovespa) in Level 2 of Corporate Governance. The 10,675,000 units offered in the initial public offering generated R$ 416.4 million, including R$ 356.7 million from the primary offer and R$ 59.7 million from the secondary offer.

On August 3, 2007, the supplementary lot of 1,601,500 units was exercised, generating R$ 62.4 million, of which R$ 39 million arose from the primary offer and R$ 23.4 million from the secondary offer.

The foreseen destination for these resources refers mainly to the opening and implementation of new higher education units, development of new products, acquisition of higher education institutions, expansion and maintenance of the existing units, settlement of short and long term bank debts and investment in educational technology and information.

The EDE subsidiaries, the activities of which are related to education, include: (i) Sistema Educacional de Aracajú Ltda. (“FAC - ARACAJU”), (ii) Pitágoras Sistema de Educação Superior Sociedade Ltda. (“PSES”), (iii) Sistema Pitágoras de Educação Sociedade Ltda. (“SPES”), (iv) INED Editora e Distribuidora Ltda. (“INED”), (v) Sociedade Educacional da Lagoa Ltda. (“SEL”), (vi) Orme Serviços Educacionais Ltda. (“ORME”), (vii) Pax Editora e Distribuidora Ltda. (“PAX”), (viii) Instituto de Avaliação e Desenvolvimento Educacional Ltda. (“INADE”), (ix) Ágora Sistema Educacional Ltda. (“ÁGORA”), (x) Sociedade Educacional e Cultural de Divinópolis Ltda. (“FADOM”), (xi) União Capixaba de Ensino Superior Ltda. (“UCES”), (xii) União Metropolitana de Ensino Paranaense Ltda. (“UMEP”), (xiii) Instituição Educacional Terra da Uva Ltda. (“JAPI”), (xiv) Sociedade Educacional de Guarapari Ltda. (“SEG”), (xv) Nova Associação Brasileira de Educação

e Cultura Ltda. (“NABEC”), (xvi) Sociedade de Ensino Superior de Guarapari Ltda. (“SESG”), (xvii) Administração de Ensino Superior de Guarapari Ltda. (“AESG”), (xviii) União Educacional de Minas Gerais Ltda. (“UNIMINAS”), (xix) Sociedade Unificada de Ensino Superior e Cultura S.A. (“SUESC”), (xx) Sociedade Capixaba de Educação Ltda. (“UNILINHARES”), (xxi) Instituto de Ensino de Rio Claro e Representações Ltda. (“CBTA”), (xxii) Faculdade Ined Londrina Ltda. (“FATEC”), (xxiii) Sociedade Educacional de Teixeira de Freitas Ltda. (“FACTEF”), (xxiv) São Francisco de Assis - Instituto de Educação S/S Ltda. (“SÃO FRANCISCO”) and (xxv) Pojecta Soluções Educacionais Ltda. (“PROJECTA”). The group management model is operated by EDE and its subsidiaries that operate in the educational areas by:

(i) providing regular and formal courses of pre-school, fundamental, medium, higher, on-line and technological education, as well as training of individuals and professional organizations; and

(ii) developing, distributing and selling didactic books, newspapers, magazines and periodicals, publicity and disclosure, developing the technical team of the partner schools, as well as offering a group of solutions to the schools that are part of the public and private school systems.

(a) Corporate restructuring

In the second half of 2007, a corporate restructuring involving the Company, its subsidiary and its shareholder Kroton Participações Ltda., was implemented as stated below to improve their activities:

(i) On May 15, 2007, Apollo Brasil Partners Ltda. ("Apollo Partners"), a company owned by Kroton Participações, obtained a loan of R$ 28,500 and purchased all of the quotas of EDE owned by Apollo Europe Brasil Partner B.V. (38.89%), recording goodwill in the amount of R$ 11,060. On May 16, 2007, Kroton Participações assumed the loan of Apollo Partners and, immediately thereafter, subscribed and paid R$ 28,500 in this company’s capital.

(ii) After the purchase of Kroton Educacional S.A., the Supervisory Board Meeting approved, on May 26, 2007, a capital increase of Kroton in the amount of R$ 28,220 through subscription of common shares at the price of R$ 1.00 each, that were paid with 100% of the capital quotas of Apollo Partners.

(iii) On May 27, 2007, the 24th amendment of EDE’s articles of incorporation approved the downstream merger into EDE of the quotaholder Apollo Partners, which owned 38.89% of EDE.

(iv) The Supervisory Board Meeting of May 28, 2007, approved a capital increase of Kroton, in the amount of R$ 30,106, through a private subscription of 44,934,043 new common shares. With the approval of Kroton's shareholders, such shares were subscribed and paid by all of EDE's quotaholders, which therefore became shareholders of the Company. As from that date, Kroton owns 100% of EDE's quotas.

(b) New acquisitions and opening of new companies

In 2008 the following acquisitions occurred:

(i) In January 2008, there was the capital payment in SEG, and also the acquisitions of 100% of the quotas of the companies SESG and AESG and 75% of the quotas of NABEC, in the city of Guarapari - ES.

(ii) In March 2008, the Company acquired 100% of UNIMINAS' quotas, , in the city of Uberlândia - MG.

(iii) In April 2008, 100% of the quotas of the companies SUESC, UNILINHARES and CBTA were acquired, , in the cities of Rio de Janeiro – RJ, Linhares – ES and Rio Claro – SP.

(iv) In June 2008, the Company acquired 100% of the quotas of FATEC, in the city of Londrina - PR.

(v) In August 2008, the Company acquired 100% of the quotas of FACTEF, in the city of Teixeira de Freitas - BA.

(vi) In October 2008, the Company acquired 100% of the quotas of SÃO FRANCISCO , in the city of Divinópolis - MG.

2 Presentation of the Financial Statements and Significant Accounting Practices

2.1 Presentation of the Financial Statements

The present financial statements were approved by the Company's Supervisory Board on March 23, 2009.

The financial statements have been prepared and are being presented in accordance with the accounting practices adopted in Brazil, based on the provisions of Corporation Law and standards established by the Brazilian Securities Commission (CVM)

The preparation of the financial statements requires the use of estimates to record certain assets, liabilities and other transactions. The financial statements of the Company and its subsidiaries therefore include estimates related to the selection of useful lives of property and equipment and deferred assets, estimated terms for the recovery and amortization of goodwill on the acquisition of investments, necessary provisions for contingent liabilities, determination of provisions for income tax, allowance for doubtful accounts, provisions for management and employees bonuses and others. Actual results may vary in relation to the estimates.

The consolidated financial statements for the period ended December 31, 2007, are being presented as from June, since Kroton became the parent company of the present group of companies only as from May 28, 2007 (Note 1a).

Alterations to the Brazilian Corporation Law

Law 11638 was enacted on December 28, 2007, and altered by Provisional Measure (MP) 449 of December 4, 2008, amending and introducing new provisions to Brazilian Corporation Law. The main purpose of this law and MP was to amend the Brazilian Corporation Law to allow the process of convergence of the accounting practices adopted in Brazil with those included in the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). The adoption of this law and MP is mandatory for annual financial statements for years that began on or after January 1, 2008.

The changes in the Brazilian Corporation Law had the following principal impacts on the Company's financial statements:

(a) Investments in marketable securities: available for sale securities are now stated at fair value with contra-entry to stockholders' equity,

(b) Financial leases - the assets acquired by the Company in 2008 through leases from Banco Real were recorded in property and equipment, and the related obligations in the caption “loans and financing”.

(c) Reclassifications: expenditures recorded in deferred assets related to the development of new projects were reclassified to intangible assets.

As permitted by the Brazilian Accounting Pronouncements Committee (CPC) Pronouncement 13, “First-time adoption of Law 11638/07 and MP 449/08”, the Company's management opted to restate the comparative figures to comply with the Accounting Standards and Procedures (NPC) No. 12 - Accounting Practices, Changes in Estimates and Correction of Errors. The changes in accounting practices described above did not affect the stockholders' equity and the result for 2008 and 2007 in significant amounts.

2.2 Description of the principal accounting practices adopted

(a) Presentation of consolidated financial statements

The consolidated financial information includes the following direct and indirect subsidiaries:

	Participation in capital	
Consolidated companies	**December 31, 2008**	**December 31, 2007**
	%	**%**
Direct subsidiary		
EDE	99.99	100.00
Indirect subsidiaries		
FAC-ARACAJÚ	99.99	99.99
PSES	99.99	99.99
SPES	99.99	99.99
INED	99.99	99.99
SEL	99.99	99.99
ORME	99.99	99.99
PAX	99.99	99.99
INADE	99.99	99.99
ÁGORA	99.99	99.99
FADOM	99.99	100.00
UCES	99.99	99.99
UMEP	99.99	99.99
JAPI	99.99	99.99
SEG	99.99	
NABEC	75.00	
SESG	99.99	
AESG	99.99	
UNIMINAS	99.99	
SUESC	99.99	
UNILINHARES	99.99	
CBTA	99.99	
FATEC	99.99	
FACTEF	99.99	
SÃO FRANCISCO	99.99	
PROJECTA	99.99	

(b) Consolidation principles

The consolidation of the balance sheet and results of operations corresponds to the sum of assets, liabilities, income and expenses of the companies included in the consolidation, according to the nature of their balances, with the following eliminations: (i) intercompany balances receivable and payable, (ii) investments and stockholders' equity and (iii) equity in the results and the results for the period.

The companies acquired during the year are included in the consolidation as from the date of the respective acquisition of control.

The minority interests in stockholders' equity and the results of operations (not significant) are presented separately.

(c) Measurement of results of operations and recognition of revenue

The results of operations are measured on the accrual basis of accounting and include earnings, monetary and exchange variations at official indices or rates levying on current and non-current assets and current and non-current liabilities. The corresponding amounts attributable to income tax and social contribution are deducted/added from the pre-tax income.

The monthly tuition payments for courses and related discounts vary in accordance with the course, unit or academic term. In a six-month period, six monthly payments are charged, including enrollment. The advanced receipts of enrollments, monthly tuition payments and sales of didactic collections are recorded as advances from customers and recognized in the accrual month or upon the delivery of material.

Deductions from gross revenue comprise taxes levying on sales and services rendered related to the Program Universidade para Todos - ProUni, discounts unconditionally granted and monthly payments and sales returned and/or cancelled. The discounts conditionally granted, usually arising from punctual monthly payments, are recognized as financial expenses.

(d) Cash and cash equivalents

These comprise cash and bank deposits.

(e) Financial instruments

(i) Classification and calculation

The Company classifies its financial assets according to the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets when first recorded.

Loans and receivables

These comprise loans granted and receivables which are non-derivative financial assets with fixed or determinable payments and not quoted in an active market. Loans and receivables are included in current assets, except for those with maturity of more than 12 months after the balance sheet date (which are classified as non-current assets). The Company's loans and receivables comprise loans granted to associated companies, trade accounts receivable, other accounts receivable and cash and cash equivalents. Loans and receivables are recorded at amortized cost, based on the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative ones classified in this category and are not recorded at fair value. Interest on available-for-sale securities, calculated based on the effective interest rate method, is recognized in the statement of operations as financial income. The amount relating to the fair value variation is recorded in shareholders' equity, in Equity valuation adjustments, and is realized in results when the asset is sold or becomes impaired.

Fair value

For financial assets without an active market or public quotation, the Company determines fair value through valuation techniques, which consist of the use of recent transactions with third parties, the reference to other substantially similar instruments and the analysis of discounted cash flows, which make the greatest use possible of information from the market and the least use possible of information from Company management.

The Company evaluates, at the balance sheet date, if there is objective evidence that a financial asset or a group of financial assets is overstated (impaired) in relation to its recoverable value. If there is such evidence for available-for-sale financial assets, the cumulative loss - calculated as the difference between the acquisition cost and current market value minus any impairment loss of this financial asset previously recognized in results - is transferred from equity to the statement of income.

(f) Trade accounts receivable

Trade accounts receivable are presented at realizable values, net of the allowance for doubtful accounts. The allowance for doubtful accounts is established when there is objective evidence that the Company will not be able to realize the amounts due in accordance with the original terms of the accounts receivable. The calculation of allowance for doubtful accounts is based on sufficient estimates to cover probable losses on the realization of accounts receivable, considering the situation of each customer and related guarantees offered (Note 4).

(g) Inventories

Inventories are stated at the average cost of purchase, which is lower than replacement cost or realizable amounts (Note 5).

(h) Investments in subsidiary and associated companies

(i) Carrying value

In the parent company and EDE, investments in subsidiary and associated companies are recorded and evaluated based on the equity accounting method, recognized in income for the year as operating income (or expense)

When the Company's or EDE's interest in the accumulated losses of the subsidiaries exceeds the investment amount, the Company provides a provision for net capital deficiency in the name of these companies

When necessary, the accounting practices of the subsidiary and associated companies are changed to be consistent with the accounting practices adopted by the Company

Goodwill

Goodwill or negative goodwill on the acquisition of an investment is calculated as the difference between the purchase amount and book value of the stockholders' equity of the company acquired. Goodwill or negative goodwill is recorded in investments and subdivided into two categories: (i) market value adjustment of assets, represented by the difference between the book value of the company acquired and the fair value of assets and liabilities (recorded in Investments) and (ii) future profitability, represented by the difference between the fair value of assets and liabilities and the purchase amount (recorded in Intangible assets).

In the consolidated, goodwill is first allocated to the assets and liabilities acquired, as the difference between the market value of assets and liabilities less their book values. The goodwill recorded in identifiable assets and liabilities is amortized as these are realized in the parent company. The portion of the goodwill that cannot be recorded as identifiable assets and liabilities is included in future profitability and amortized over the term, extension and proportion of the estimated results, not exceeding ten years.

(i) Property and equipment

Property and equipment are stated at historical acquisition cost, with monetary correction until December 31, 1995. Depreciation is calculated on the straight line method to decrease cost, using the rates disclosed in Note 9, in accordance with the expected useful life of assets.

(j) Intangible assets

Expenditures incurred in the development of projects are recognized as intangible assets when it is probable that the projects will be successful, considering their commercial and technological feasibility, and only if the cost can be reliably measured. Capitalized development expenditures are amortized as from the beginning of the operations, using the straight-line method during the period of the expected benefit.

Computer programs (software)

Software licenses acquired are capitalized and amortized over their estimated useful life, at the rate of 10% p.a..

(k) Deferred charges

As permitted by Provisional Measure 449/08, the remaining balance of deferred charges at December 31, 2008, that could not be allocated to property and equipment and intangible assets, will remain in assets under this classification up to its full amortization, although subject to periodic analysis of its recoverability.

(l) Impairment of assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are reviewed to identify evidence of unrecoverable losses annually, and also whenever events or alterations in the circumstances indicate that the book value may not be recoverable. In this case, the recoverable value is calculated to verify if there is any loss. In the event of loss, it is recognized at the amount by which the book value of the asset exceeds its recoverable value, which is the higher between the net sales price and the value in use of an asset. For evaluation purposes, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(m) Leases

Leases of property, plant and equipment in which the Company substantially assumes all ownership risks and benefits are classified as financial leases. These financial leases are recorded as a financed purchase, recognizing at the beginning of the lease a property, plant and equipment item and a financing liability (lease). Property, plant and equipment acquired in finance leases are depreciated at the rates defined in Note 9.

(n) Other Current and Non Current Assets

Other assets are stated at cost or realizable value, including, when applicable, accrued earnings and monetary variations.

(o) Income Tax and Social Contribution

The Corporate Income Tax ("IRPJ") is calculated based on the result, adjusted to taxable income by the additions and exclusions determined in legislation, as described in Note 11. The Social Contribution on Net Income ("CSLL") is calculated at the effective rate on the result before income tax, adjusted in the terms of effective legislation. Deferred tax assets are calculated on tax losses and the related temporary differences between the tax bases of assets and liabilities and the corresponding book values in the financial statements. The tax rates presently in effect are used to determine the deferred tax assets, i.e., 25% for income tax and 9% for social contribution.

The amounts of income tax and social contribution payable are presented net of prepayments made during the years ended December 31, 2008 and 2007. The recognition of deferred tax assets is based on a study of expected future taxable income prepared from internal assumptions and future economic scenarios that may therefore undergo changes.

(p) Borrowings

Borrowings are initially recognized at fair value, upon receipt of funds, net of transaction costs. Subsequently, the borrowings are presented at amortized cost, that is, plus charges and interest in proportion to the period incurred ("pro rata temporis").

(q) Provisions

Provisions are recognized when the Company has a legal or informal present obligation as a result of past events, it is probable that a cash outflow is necessary to settle the obligation, and a reliable estimate of the amount can be made.

(r) Other Current and Long Term Liabilities

These are stated at known or estimated amounts and recorded on the accrual basis, including related charges and monetary and exchange rate variations, when applicable. The liability for employees' remuneration, mainly related to payroll and vacation pay charges, is accrued as the vesting periods fall due.

3 Marketable Securities

	Consolidated	
	2008	**2007**
Financial investments		
Bank deposit certificate (CDB) (i)	69,876	105,968
Investment Fund Quotas (ii)	45,173	216,823
Other	55	36
Total	**115,104**	**322,827**

(i) Refers to financial investments in a Bank Deposit Certificate (CDB) with yields linked to between 101% and 102% of the Interbank Deposit Certificate (CDI) interest rate.

(ii) Refers to financial investments in investment funds with terms of up to 90 days. The variation of the daily value of the quotas is linked to the financial market.

The monthly average yield in 2008 was 1.08% (2007- 0.85%) and the financial income approximated R$ 25,521 (2007 - R$10,200).

4 Accounts Receivable

	Consolidated	
	2008	**2007**
Monthly tuition payments		
Colleges	46,443	16,377
Schools	5,094	2,576
Contracts (i)	555	1,351
Sales of books	14,749	10,120
Other	566	3,571
Sub-total	**67,407**	**33,995**
Allowance for doubtful accounts		
Colleges	(4,737)	(2,560)
Schools	(581)	(342)
Sales of books	(400)	(666)
	(5,718)	**(3,568)**
Total	**61,689**	**30,427**

(i) Refers to contracts signed with the companies Companhia Vale do Rio Doce, Instituto Embraer de Educação e Pesquisa, Mineradora Fazenda Brasileiro S.A. and Mineração Taboca S.A. to render educational services in the basic education segment for the children of the employees of these companies.

(ii) The group companies have the practice of constituting an allowance for doubtful accounts in accordance with historical of loss experience. During the year ended December 31, 2008, the amount of R$ 5,718 consolidated (period from June to December 2007 - R$ 1,825) was recognized as loss in the period. Despite the accounting provisions, the Company's management is doing its utmost to recover the outstanding amounts.

The companies PSES, FADOM, UCES, UMEP, JAPI, AESG, UNIMINAS, UNILINHARES and FACTEF are part of the Student Financing program (FIES), created by Law 10260/01. FIES is a program of the Education and Culture Ministry (MEC) to finance students that cannot afford the total cost of their education. The financial resources are managed by the Caixa Econômica Federal (Federal Savings Bank) and may represent up to 70% of the monthly tuition payments of the courses offered by private institutions of higher education. During the undergraduate course, the institution receives from the student the monthly tuition portion that is not covered by FIES, and the amounts financed by FIES are offset against the balances payable to the National Institute of Social Security (INSS). During 2008, amounts receivable from FIES were offset against INSS balances payable in the total of R$ 6,350 (consolidated),(2007 - R$ 3,450).

5 Inventories

	Consolidated	
	2008	**2007**
Pitágoras books and collections	8,384	7,694
Raw material - paper	1,040	995
Commercial books	697	64
Material for publicity and others	257	242
Advances to suppliers (i)	996	679
Provision for losses (ii)	(654)	(932)
Total	**10,720**	**8,742**

(i) Refers to advances to suppliers of EDE, INED and PAX responsible for the manufacture of the books of the Pitágoras collection.

(ii) The provision for losses on inventories of books and prior year collections is calculated based on the expectation of their realization. Some of these inventories are used by the sales team, and their cost is recognized as expense as the books are delivered to the schools that are potential customers.

6 Advance to Suppliers

Consists mainly of advances to suppliers for construction and maintenance of buildings of the units in Betim, Raja and Governador Valadares. These amounts will be offset against the monthly payment of rentals.

7 Transactions with Related Parties

(i) Credits with related companies and debts with subsidiaries and related companies

The main balances and transactions of the Company with related parties are as follows:

	Parent company		Consolidated	
	Debt with subsidiary	Debt with subsidiary	Debts with related parties	Credits with related parties
	2008	2007	2008	2007
EDE	1,415	1,100		
Other			155	206
	1,415	**1,100**	**155**	**206**

The main balances of assets and liabilities with related parties at December 31, 2008 arise mainly from loan transactions between Kroton and its subsidiaries and related companies, which bear no interest nor monetary restatement.

(ii) Remuneration of key management personnel

The expenses for remuneration of key Company management (Supervisory Board, president and vice presidents) in 2008 were R$ 2,708 (2007- R$ 584). In 2007, no remuneration was provided to the Supervisory Board.

8 Investments

(a) Information on investments - Subsidiary EDE

	At December 31		
	2008	2007	
Number of quotas owned	404,065,900	404,065,900	
Interest in capital - %	99.99	100.00%	
Capital	404,066	404,066	
Net book equity	462,184	429,246	
Net income for the period	32,938	10,092	**(*)**
Book balance of the investment	462,184	429,246	
Equity in the results	32,938	10,423	**(**)**

(*) Information as from June 2007.

(**) This amount differs from the results of EDE by the amount of R$ 331, corresponding to the result calculated for the period from May 28 to 31, 2007.

(b) Information on investments at December 31, 2007 - EDE´s shares in its subsidiaries

	FAC Aracajú	PSES	SPES	INED
Number of quotas owned	56,022	78,822,160	18,316,710	3,135,267
Interest in capital - %	99.99%	99.99%	99.99%	99.99%
Capital	56	78,822	18,317	3,135
Net book equity	39	104,643	14,046	1,768
Net income (loss) for the period (*)		15,965	(778)	(50)
Book balance of the investment	39	104,632	14,045	1,768
Equity in the results (*)		15,960	(778)	(50)

	SEL	ORME	PAX	INADE
Number of quotas owned	1,343,519	11,921,340	1,176,970	45,979
Interest in capital - %	99.99	99.99	99.99	99.99
Capital	1,344	11,921	1,177	46
Net book equity	685	14,348	258	2,224
Net income (loss) for the period	(21)	1,982	(919)	1,537
Book balance of the investment	685	14,347	258	2,224
Equity in the results	(21)	1,981	(919)	1,537

	ÁGORA	FADOM	UCES	UMEP
Number of quotas owned	459,835	1,142,052	1,497,130	14,663,033
Interest in capital - %	99.99	99.99	99.99	99.99
Capital	460	1,142	1,497	14,663
Net book equity	101	2,775	539	8,493
Net income (loss) for the period	(140)	1,810	(1,407)	3,806
Book balance of the investment	101	2,775	539	8,491
Equity in the results	(140)	1,810	(966)	3,616

	JAPI	SEG	NABEC	SESG
Number of quotas owned	3,427,861	288,800	10,000	60
Interest in capital - %	99.99	99.99	75	99.99
Capital	3,428	289	10	60
Net book equity	1,721	289	(250)	275
Net income (loss) for the period	(1,204)		(240)	139
Book balance of the investment	1,721	289	(180)	275
Equity in the results	(1,204)		(187)	139

	AESG	UNIMINAS		SUESC		UNILINHARES	
Number of quotas owned	5,330	5,740,125		209,825		4,545,790	
Interest in capital - %	99.99	99.99		99.99		99.99	
Capital	5,330	5,740		23,980		4,546	
Net book equity	3,391	1,692		18,662		3,375	
Net income (loss) for the period	(1,490)	(481)	(*)	2,692	(*)	(1,173)	(*)
Book balance of the investment	3,391	1,693		18,660		3,372	
Equity in the results	(1,693)	(481)	(*)	2,692	(*)	(1,173)	(*)

	CBTA	FATEC	FACTEF	SÃO FRANCISCO	Total
Number of quotas owned	869,170	226,390	600,000	258,000	
Interest in capital - %	99.99	99.99	99.99	99.99	
Capital	869	226	600	258	
Net book equity	933	197	82	258	
Net income (loss) for the period (*)	47	(6)	(258)		
Book balance of the investment	932	196	82	258	180,593
Equity in the results (*)	47	(6)	(258)		19,906

(*) Information as from the related month of acquisition during 2008.

(c) Changes in investments

(i) Direct subsidiary

	EDE
Balance at December 31, 2007	429,246
Equity in the results	32,938
Balance at December 31, 2008	**462,184**

(ii) Indirect Subsidiaries:

	FAC-Aracaju	PSES	SPES	INED	SEL	ORME	PAX
Balance at December 31, 2007	**39**	**42,879**	**13,195**	**1,563**	**706**	**6,561**	**10**
Capital increase		45,793	1,628	255		5,805	1,168
Equity in the results		15,960	(778)	(50)	(21)	1,981	(919)
Balance at December 31, 2008	**39**	**104,632**	**14,045**	**1,768**	**685**	**14,347**	**259**

	INADE	AGORA	FADOM	UCES	UMEP	JAPI	SEG
Balance at December 31, 2007	**687**	**70**	**965**	**38**	**4,875**	**964**	
Payment of capital							100
Capital increase		171		1,467		1,961	189
Equity in the results	1,537	(140)	1,810	(966)	3,616	(1,204)	
Balance at December 31, 2008	**2,224**	**101**	**2,775**	**539**	**8,491**	**1,721**	**289**

	NABEC	SESG	AESG	UNIMINAS	SUESC	UNILINHARES
Balance at December 31, 2007						
Acquisition of companies	7	136	155	536	15,968	4,084
Capital increase			4,929	1,638		461
Equity in the results	(187)	139	(1,693)	(481)	2,692	(1,173)
Balance at December 31, 2008	**(180)**	**275**	**3,391**	**1,693**	**18,660**	**3,372**

	CBTA	FATEC	FACTEF	SÃO FRANCISCO	TOTAL
Balance at December 31, 2007					**72,552**
Acquisition of companies	336	76	340	258	21,895
Payment of capital					100
Capital increase	549	126			66,140
Equity in the results	47	(6)	(258)		19,906
Balance at December 31, 2008	**932**	**196**	**82**	**258**	**180,593**

9 Property and Equipment

(a) Composition

	Consolidated				
			2008	2007	Annual depreciation rates
	Cost	Accumulated depreciation	Net	Net	%
IT equipment	14,839	(6,141)	8,698	3,428	20
Furniture, fixture and installations	25,706	(7,631)	18,075	6,840	10
Vehicles	560	(182)	378	95	20
Leasehold improvements (i)	19,907	(4,124)	15,783	11,120	10
Library	25,239	(4,923)	20,316	7,086	10
Laboratory	8,389	(1,506)	6,883	2,214	10
Buildings and improvements	26,548	(906)	25,642	180	4
Construction in progress (ii)	23,808	(24)	23,784	6,977	
Land	14,154		14,154		
Other	23		23	12	
	159,173	**(25,437)**	**133,736**	**37,952**	

(i) Refers mainly to expenditures incurred in improvements to the new Pitágoras college campuses in São Luis, Betim, Ipatinga and Belo Horizonte. The time schedule for this construction is prepared in accordance with the approval of the courses by the Ministry of Education and Culture (MEC), and the mentioned improvements are transferred to the account "Leasehold Improvements" as the classrooms, labs and common areas are placed at the students' disposal.

The depreciation for the period allocated to the cost of products sold and services rendered amounts to R$ 7,038 (period from June to December 2007 - R$ 1,382) and to general and administrative expenses, R$ 273 (period from June to December 2007 - R$ 376).

(b) Leased equipment

Certain equipment is leased through irrevocable contracts subject to charges of 3.87% to 5.83% per year, with purchase options and contract periods of 24 to 36 months. In 2008 there was an acquisition of this nature in the amount of R$ 62.

The acquisition made in 2008 was recorded in accordance with Law 11,638/07. Due to the immateriality of the amounts leased before 2007, the accounting records have not been changed. The operating expenses incurred with leases in 2008 were R$ 370 (period from June to December 2007 - R$ 286).

The commitments assumed on these contracts, at present value, may be summarized as follows

	Consolidated	
	2008	**2007**
2008		684
2009	284	284
2010	60	
2011	1	
	345	**968**

(c) Changes in property and equipment

	Consolidated		
	Cost	**Accumulated depreciation**	**Net**
Balance at December 31, 2007	**51,399**	**(13,447)**	**37,952**
Additions resulting from acquisitions	30,662	(4,605)	26,057
Additions	77,203	(7,385)	69,818
Disposals	(91)		(91)
Balance at December 31, 2008	**159,173**	**(25,437)**	**133,736**

10 Intangible Assets

(a) Parent Company

			2008	2007
	Cost	Accumulated amortization	Net	Net
Goodwill on investments				
Editora (ii)	10,523	(3,332)	7,191	9,295
	10,523	**(3,332)**	**7,191**	**9,295**

(b) Consolidated

			2008	2007
	Cost	Accumulated amortization	Net	Net
Software	6,597	(1,865)	4,732	1,173
Goodwill on investments				
Cidade Jardim (i)	9,644	(2,755)	6,889	8,266
Editora (ii)	10,523	(3,332)	7,191	9,295
Fadom (iii)	10,695	(1,426)	9,269	10,339
Uces (iii)	1,601	(173)	1,428	1,588
Umep (iii)	12,953	(1,403)	11,550	12,845
Japi (iii)	4,272	(463)	3,809	4,236
Nabec (iii)	142	(12)	130	
Sesg (iii)	2,021	(202)	1,819	
Aesg (iii)	2,438	(229)	2,209	
Uniminas (iii)	21,654	(1,624)	20,030	
Suesc (iii)	15,531	(415)	15,116	
Unilinhares (iii)	11,204	(727)	10,477	
Cbta (iii)	3,082	(205)	2,877	
Fatec (iii)	324	(19)	305	
Factef (iii)	7,860	(328)	7,532	
São Francisco (iii)	928		928	
Development of internal projects				
New units and new courses (iv)	41,893	(1,112)	40,781	7,753
Pitágoras University System(v)	9,659	(821)	8,838	9,572
New contracts - Rede (vi)	6,540	(490)	6,050	3,710
Distance learning (vii)	2,697		2,697	1,309
Evaluation of higher education (viii)	658		658	
Other				40
	182,916	**(17,601)**	**165,315**	**70,126**

(i) Refers to the goodwill recorded on the increase of interest of PSES in Colégio Pitágoras Cidade Jardim S.A., which was merged into PSES in October 2003. This goodwill is based on the expectation of future profitability and started being amortized as from 2004, at the rate of 10% p.a.. In January 2007 this goodwill was transferred to SPES, due to the acquisition of Colégio Cidade Jardim.

(ii) Refers to the goodwill originally recorded in APOLLO PARTNERS, due to the acquisition of EDE quotas held by Apollo Europe. In the corporate restructuring in the 2nd quarter of 2007, there was a downstream merger of APOLLO PARTNERS into EDE for the fiscal use of the goodwill, and in line with CVM 349/01 guidelines, a provision in the amount of the difference between the goodwill amount and the tax benefit arising from its amortization was set up. Upon the conclusion of the restructuring process, the goodwill was recomposed in the Parent Company in compliance with CVM 349/01.

(iii) Refers to the goodwill recorded on the acquisition of colleges, based on expectation of future profitability of up to 10 years, except for SUESC, recorded basically due to the appreciation of property and equipment.

(iv) Refer to expenditures incurred with respect to:

- Opening of the units in Ipatinga, Betim, São Luís, Poços de Caldas, Uberlândia, Guarapari, Votorantim, Feira de Santana, Aracajú, Contagem, Governador Valadares and expansion of the campi Cidade Jardim, Guajajaras and Centro (INED) in Belo Horizonte, Venda Nova and Contagem, among others;
- Investments in launching new products;
- Operating and technological infrastructure to guarantee the operation of higher education when approved by MEC;
- The preparation of the Plan for Institutional Development (PDI), with details of all the courses to be approved by MEC and expenditures incurred in the process of credentialing new campuses and courses.

(v) Refers to expenditures incurred on the conception and development of an academic methodology (guideline for students and teachers and evaluation systems) and operating methodology (manual of operations) to guarantee the growth of the Pitágoras University System.

(vi) Refer to expenditures incurred with the development of products to be sold by the Catholic Network and the Pitágoras Network.

(vii) Refer to expenditures incurred on the conception and development of the new distance learning business, with the objective of providing partial classroom higher education through the internet in several localities of the country.

(viii) Refer to expenditures incurred with the development of a new product and methodology for evaluation of higher education to be offered by the company INADE.

11 Income Tax and Social Contribution

(a) Composition of deferred taxes

The balances of deferred tax assets, mainly recorded in the subsidiary EDE, are as follows:

	Consolidated	
	2008	**2007**
Income tax losses	4,329	5,124
Social contribution losses	1,558	1,845
Temporary differences (primarily goodwill)	5,845	8,000
	11,732	**14,969**

Management prepared a technical study of the feasibility of future realization of the deferred tax assets, considering the companies' probable capacity of generating future taxable income, using assumptions for the main variables of its business and future economic scenarios that may, therefore, undergo changes.

The income tax and social contribution on temporary differences arise mainly from the goodwill from the merger into PAI of Apollo Brasil. Apollo Brasil had goodwill related to its investment in PAI, with no expectation of recovery. Accordingly, a valuation allowance of 100% of its amount had been recorded, and as a consequence, the related tax benefit had not been recognized in the books. After the merger of Apollo Brasil into PAI, this tax benefit became recoverable based on the projections of future profitability considering the corporate restructuring, and management then recognized this tax benefit in the books.

According to projections prepared by the companies' management, the long term deferred income tax and social contribution will be realized as follows:

	Consolidated	
	2008	**2007**
2008		1,891
2009	2,486	2,486
2010	2,997	2,997
2011	3,003	3,003
2012	3,246	3,002
2013		1,590
Total realizable in 10 years	11,732	14,969
(-) Current assets	(2,486)	(1,891)
Long term receivables	**9,246**	**13,078**

In addition to this deferred tax asset, the Company has R$ 9,024 (2007- R$ 8,931) which may be offset against future taxable income, but which has not yet been recorded for accounting purposes, because it is not possible to affirm that its realization is probable.

Since the taxable basis of income tax and social contribution on net income arises not only from the profit that may be generated, but also from the existence of non-taxable income, non-deductible expenses, tax incentives and other variables, there is no immediate correlation between the Company's net income and its income tax and social contribution. Therefore, the expectation of the utilization of the tax credits should not be taken as the only indication of the Company's future results.

(b) Reconciliation of income tax and social contribution expense

The reconciliation of the income tax and social contribution expense between the nominal and the effective rates is as follows:

(i) Parent Company

	2008	2007
Income (loss) before income tax and social contribution for the year/period	30,560	(16,583)
Combined nominal rate of income tax and social contribution	34%	34%
Income tax and social contribution at nominal rates	(10,390)	5,638
Reconciliation of income tax and social contribution		
Equity in the results	11,199	3,545
Permanent exclusions, net	(716)	(418)
Unrecorded tax credit	(93)	(8,765)
Income tax and social contribution in the result for the year/period		

(ii) Consolidated

	2008	2007
Income (lLoss) before income tax and social contribution for the year/period	40,582	(16,294)
Combined nominal rate of income tax and social contribution	34%	34%
Income tax and social contribution at nominal rates	(13,798)	5,540
Reconciling items		
Fiscal incentive in subsidiary with benefits of PROUNI (i)	6,568	1,447
Permanent additions and exclusions, net	(631)	392
Reversal of tax credit and complement of previous years	(2,122)	994
Unrecorded tax credit	(93)	(8,931)
Income tax and social contribution in the result for the year/period	**(10,076)**	**(558)**

(i) As described below, corresponds to companies exempted from income tax and social contribution on net income for having joined the PROUNI program.

(c) Tax Incentives

In 2005, PSES joined the Program Universidade para Todos - PROUNI, which establishes, through Law 11096/05, exemption from certain federal taxes for higher education institutions that grant full and partial scholarships to low-income students enrolled in traditional undergraduate and technological courses. The higher education businesses acquired in 2007 and 2008 area were also enrolled in the PROUNI program.

According to the Federal Revenue Secretariat's Regulatory Instruction 456, dated October 5, 2004, a private institution of higher education that joins PROUNI is fully or partially exempt from the following taxes, during the period in which the enrollment term is effective:

- Income tax and social contribution on taxable income in proportion to the revenues from traditional undergraduate and technological graduation courses.

- Social Contribution on Revenues (COFINS) and Social Integration Program (PIS), related to the revenues from traditional undergraduate and technological graduation courses.

Further, the companies EDE ,INED and PAX, which are mainly engaged in the sale of books, have the benefit of non-payment of PIS and COFINS on the income arising from sale of books in the local market, as established by article 28 of Law 10865/04. These companies also are not subject to ICMS (value-added tax) on the circulation of didactic books, as determined in article 5 of decree 43808/02.

(d) Transition Tax Regime (RTT)

In order to calculate income tax and social contribution on net income for 2008, companies may opt for the Transition Tax Regime (RTT), in which legal entities are allowed to eliminate the accounting effects of Law 11638/07 and MP 449/08, through entries in the Taxable Income Assessment Book (LALUR) or auxiliary records, without any modification to the commercial accounting records. A company must declare the option for this regime upon the delivery of the Corporate Income Tax Return (DIPJ) for 2008.

The financial statements for the year ended December 31, 2008 have been prepared considering management's best estimates that, at the moment, indicate the option for RTT.

12 Suppliers

The balance of suppliers is mainly composed of services and products necessary for the production and sale of didactic books of the Pitágoras Collection, which are distributed to the network schools through EDE. The balance also includes services and consulting relating to the education area.

13 Loans and Financing

	Consolidated	
	2008	**2007**
Local currency		
Overdraft accounts		119
BDMG (i)	16,606	15,611
BNDES (ii)	847	1,265
Other		62
	17,453	**17,057**
(-) Current liabilities	(5,453)	(1,429)
Long term liabilities	**12,000**	**15,628**

(i) Refers to the financing provided with resources from the Development Incentive Fund (FINDES), obtained from Banco de Desenvolvimento de Minas Gerais S.A. (BDMG) to expand the Pitágoras and INED higher education operations. The funding obtained was invested in books, furniture, machinery, laboratory and IT equipment, civil construction and logistics and IT infra-structure.

The total amount of financing is R$ 15,000, with interest of 6% p.a., restatement by the Amplified Consumer Price Index (IPCA), a 24-month grace period as from December 2006 and amortization in 60 months. In case of timely payment of the first 12 installments, the interest rate will be reduced to 4% p.a. The financing is guaranteed by sureties from a first-line bank and guarantees from individuals.

(ii) Refers to "Automatic BNDES" financing, obtained for the acquisition of furniture and laboratory and IT equipment related to the courses of Faculdades Pitágoras, already approved by MEC. This financing is restated based on the Monetary Unit of the National Bank for Economic and Social Development (UMBNDES), with interest of 5.5% p.a. and a 24-month grace period for payment of the principal, which will be amortized over 36 months as from January 2007. The financing is backed by a promissory note in the amount of R$ 3,656 and guarantees from individuals.

Long term amounts fall due as follows:

	Consolidated	
	2008	**2007**
2009		4,378
2010	3,000	3,750
From 2011 onwards	9,000	7,500
	12,000	**15,628**

14 Advances from Customers

	Consolidated	
	2008	**2007**
Current		
Advances received for sale of didactic collections (i)	5,665	6,573
Advances received for enrollments and tuition payments (ii)	1,709	1,270
	7,374	7,843
Long term		4
Total	**7,374**	**7,847**

(i) The advances received on account of didactic collections to be delivered during the next academic year are appropriated to income upon the delivery of the related collections.

(ii) The advances received on account of enrollments and/or monthly tuition payments of the next academic year are appropriated to income over twelve months, when related to enrollments, or as services are rendered.

15 Accounts Payable - Acquisitions

	Consolidated	
	December 31, 2008	December 31, 2007
Short term		
Acquisition of FADOM	6,000	
Acquisition of AESG and SESG	1,689	
Acquisition of METROPOLITANA		9,000
Acquisition of FATEC	32	
Acquisition of FACTEF	2,108	
Acquisition of CBTA	72	
Acquisition of SÃO FRANCISCO	593	
	10,494	**9,000**
Longo Prazo		
Acquisition of FADOM		6,000
Acquisition of UCES	443	500
Acquisition of AESG and SESG	2,535	
Acquisition of CBTA	287	
Acquisition of SÃO FRANCISCO	592	
	3,857	**6,500**
Total liabilities payable	**14,351**	**15,500**

16 Other Accounts Payable

In long term liabilities, it comprises mainly the liability related to the transfer of student financing received, prior to the signing date of the contract of purchase and sale of Uniminas, in the amount of R$ 4,027. These credits will be held in guarantee over their receipt period over five years.

17 Tax Recovery Program

(a) REFIS III - EDE

This is an installment program for payment of overdue federal taxes, involving the Federal Revenue Secretariat (SRF), the National Finance Attorney Department (PGFN) and the National Institute of Social Security (INSS), which covers obligations that fell due up to February 28, 2003. These obligations can be paid in up to 130 monthly installments under the conditions established by Provisional Measure 303 of 2006.

The present value of this payable balance is R$ 181, referring to overdue contributions to Commercial Social Service (SESC) and the National Commercial Apprenticeship Service (SENAC) for the period form March 1999 to February 2000. The obligation will be paid in 92 monthly installments subject to the Long-Term Interest Rate (TJLP: 2008 - 6.24%; 2007 - 6.25% per annum) as stated by the Provisional Measure mentioned above. Up to December 31, 2008, 28 installments have already been paid. The remaining balance is R$ 125.

(b) Payment in Installments of IES - FADOM

Refers to federal tax obligations (PIS, COFINS, CSLL, IRPJ, and IRRF) from 1993 to 2002, which were renegotiated on July 1, 2003. The renegotiated amount is being paid in 180 monthly installments, subject to the TJLP, under the PAES program.

On April 30, 2008 the institution opted to renegotiate the PAES through the payment in installments of IES regulated by joint ordinance PGFN/RFB 6, of December 17, 2007. The installments will bear interest equivalent to the reference rate of the Special System for Settlement and Custody (SELIC), accumulated monthly, calculated as from the month subsequent to the option for payment in installments, up to the month prior to the payment and 1% related to the month in which the payment is being made. The outstanding balance up to December 31, 2008 is R$ 1,687.

Up to December 31, 2008 the tax authorities have not made the consolidated amounts of the payments available. Since May 2008 the institution has been paying monthly the amount of R$ 17 that is equivalent to the remaining debt balance in the enrollment period divided into 120 monthly installments.

(c) Payment in Installments of ISS - FACTEF

Refers to debts with the Municipal Government of Teixeira de Freitas (ISS) from July 2003 to March 2008, consolidated in July 2008. The payment in installments was granted in 48 monthly installments as from the consolidation date. The total debt amounts to R$ 1,042, including interest and fines. It has been amortized by 50% in the first two installments. The remaining debt is being paid in installments of R$ 11. Up to December 31, 2008 , 5 installments have already been paid, leaving a balance of R$ 466.

(d) Payment in Installments of INSS - FACTEF

Refers to debts with the Social Security (INSS) from 2003 to 2007, consolidated in two installment payment programs in July 2006 and July 2007. The payment terms were granted in 60 and 36 installments, respectively. The total debt amounts to R$ 243 and R$ 588, including interest and fines. Up to December 31, 2008, 28 of 60 installments and 15 of 36 installments have already been paid, leaving a balance of R$ 591.

18 Contingencies

(a) Judicial deposits and provision for contingencies

The Group companies are involved in judicial and administrative processes arising from the normal course of their activities. The provisions for eventual losses arising from these processes are estimated and updated by management, supported by the opinion of its legal advisors. In connection with these judicial processes, judicial deposits have been made that may be recovered upon the favorable outcome of these suits or used to liquidate the judgment in case of an unfavorable outcome.

At December 31, 2008, the contingencies recorded in long term liabilities totaled R$ 990 (2007 - R$ 20), and the main amount refers to a contingency with the Municipal Government of Rio de Janeiro, arising from the collection of service tax (ISS) in the period in which the institution was a non-profit organization, and the judicial deposits, recorded in long term receivables are R$ 391 (2007 - R$ 1,064), mainly represented by judicial deposits by UMEP during 2007 in the amount of R$ 809, related to the discussion of the monthly rental payable to Salenco Construções, recorded in the suppliers account, which was realized in 2008.

	Consolidated
Balance at December 31, 2007	20
Additions (i)	970
Balance at December 31, 2008	990

(b) Possible losses not recorded

The Group companies have civil and labor lawsuits involving risk of loss classified by management as possible, based on the opinion of their legal advisors, for which no provision has been constituted, as follows:

	Consolidated	
	2008	**2007**
Tax	20	152
Labor	44	37
Civil	12	44
	76	**233**

19 Stockholders' Equity

(a) Capital

	Number of shares	
	2008	**2007**
Pitágoras Administração e Participações Ltda. (“PAP”)	120,962,684	74,565,211
Pré-Vestibular Projecta Sociedade Ltda. (“PROJECTA”)		57,996,837
PCA Assessoria Administrativa Ltda.	6,628,104	
W-LDB Produtos e Serviços Educacionais Ltda.	6,628,104	
Treasury shares	6,622,700	
Market float	79,311,050	87,590,594
	220,152,642	**220,152,642**

(b) Appropriation of the Results of Operations

At the supervisory board's discretion, the Company may prepare interim balance sheets and, based on them, distribute interim profits from retained earnings or from revenue reserves that existed in the last annual balance sheet.

According to the Company's by-laws, the accumulated deficit and the provisions for income tax and social contribution must be deducted from the profits. The remaining profit shall have the following destination: (i) 5% for legal reserve; (ii) 1% distributed to shareholders as mandatory dividends; and (iii) the remaining balance to be determined as approved by the General Meeting of stockholders, based on the proposal submitted by the Supervisory Board.

(c) Legal reserve

The legal reserve is annually constituted as 5% of net income for the year and cannot exceed 20% of the capital. The purpose of the legal reserve is to ensure the integrity of capital and can be used only to offset losses and increase capital. The constituted amount of the legal reserve in 2008 was R$ 681.

(d) Proposed Dividends

The proposal of dividends recorded in the Company's financial statements, subject to approval of the stockholders in the General Meeting, calculated under the terms of the Brazilian Corporation Law, especially as regards articles 196 and 197, is as follows:

	2008
Net income after absorption of accumulated losses	13,630
Transfer to reserves	
Legal 5%	(681)
Dividend calculation basis	12,949
Proposed dividends	12,949
Percentage of remaining net income - %	100

20 Cost of Services Rendered

The costs of services rendered are related to the cost of operation of the educational units, with the greatest of them being remuneration of teachers and professors. In the last quarter of 2008, the acquired units recorded the non-recurring termination costs in the amount of R$ 5,025, for the objective of aligning the salary policies to the business model of Kroton Educacional.

21 Financial Results

	Parent company		Consolidated	
	Year ended December 31,		Year ended December 31,	Period from June 1 to December 31,
	2008	2007	2008	2007
Financial expenses				
Interest on financial liabilities and discounts granted (i)			(10,662)	(3,843)
Taxes and fees on financial transactions	(51)	(1,420)	(2,903)	(3,831)
Other				(3)
	(51)	**(1,420)**	**(13,565)**	**(7,677)**
Financial income				
Earnings on financial investments			25,521	16,674
Interest on financial assets			1,116	1,053
Monetary variations on assets			853	86
			27,490	**17,813**
Financial expenses, net	**(51)**	**(1,420)**	**13,925**	**10,136**

(i) The discounts granted conditionally usually arise from punctual payments of monthly installments and are recognized as financial expenses. In the year ended December 31, 2008, the amount of R$ 7,446 (period from June to December 2007 - R$ 1,212) was recognized in expense.

22 Financial Instruments

(a) Identification and valuation of financial instruments

The Company maintains various financial instruments, mainly cash and cash equivalents, including financial investments, trade notes receivable, accounts payable to suppliers and loans and financing

The amounts recorded in current assets and liabilities have immediate liquidity or maturity, mostly in less than 3 months. Considering the term and the features of these instruments, which are systematically renegotiated, the book values approximate the fair values.

(b) Cash and cash equivalents, financial investments, accounts receivable, other current assets and suppliers

The amounts recorded approximate the realizable amounts.

(c) Investments

Consist, mainly, of investments in subsidiaries (limited liability companies), recorded on the equity method, in which the Parent Company has a strategic interest. Considerations of market value of the shares held are not applicable.

(d) Loans and financing

The loans and financing have their rates linked to the Amplified Consumer Price Index (IPCA) and to the Monetary Unit of the National Bank for Economic and Social Development (UMBNDES), and the book value approximates the market value.

(e) Interest rate risk

This risk arises from the possibility that the companies will incur losses due to fluctuations in interest rates, which increase the financial expenses related to loans and financing obtained in the market. The Company continuously monitors the market interest rates with the objective of evaluating the possible need of contracting instruments to protect against the volatility of these rates.

(f) Credit risk

The sales policy of the Company and its subsidiaries is closely linked to the level of credit risk to which it is willing to be subject in the course of its business. The enrollment for the next academic year is blocked whenever the student is delinquent with the institution. The diversification of its receivable portfolio, the selectivity of its students, and the monitoring of collections are procedures adopted to minimize possible default on its accounts receivable. The companies also have an allowance for doubtful accounts in the amount of R$ 5,718, corresponding to 8.47% (2007 – R$ 3,568, corresponding to 10.51%) of the gross balance of outstanding accounts receivable from third parties, to face credit risk.

The Group restricts its exposure to credit risks associated with banks and financial investments by investing through first-line financial institutions and in accordance with previously established limits.

(g) Derivatives

The Company did not contract any derivative financial instruments in 2008 and 2007.

(h) Sensitivity analysis

For the sensitivity analysis, management used the macroeconomic indicators of the current year as assumptions, as they understand that, considering the current market volatilities, the probable scenario for 2009 will be similar to 2008.

Sensitivity analysis table

(i) Marketable securities

Index	Amount	Risk	Probable scenario	Possible scenario (25%)	Remote scenario (50%)
CDI	115,104	Reduction in CDI	14,250	10,687	7,125

(ii) Loans and financing

Index	Amount	Risk	Probable scenario	Possible scenario (25%)	Remote scenario (50%)
IPCA	16,606	Increase in IPCA	980	1,225	1,470
UNBNDES	847	Increase in UMBNDES	38	48	57

Utilized index: CDI – 12.38%, IPCA – 5.90%, UMBNDES – 4.46%.

Management has prepared the sensitivity analysis for the other financial instruments at December 31, 2008 and has concluded that they do not present risks of significant losses.

23 Insurance Coverage

The Group has a risk management program with the objective of limiting risks and searching for coverage compatible with its size and operation. The coverage has been contracted at amounts considered sufficient by management to cover eventual losses, considering the nature of its activity, the risks involved in its operations and the guidance of its insurance advisors.

At December 31, 2008, the Company had insurance policies contracted from third parties with maximum indemnity of R$ 24,000 (2007- R$40,455), and which cover electrical damages, riots, glass breakage, electronic equipment, fire, robbery, lightning, explosions, windstorms, vehicle impacts and aircraft accidents.

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