

KROTON EDUCACIONAL S.A.
CNPJ/MF No. 02.800.026/0001-40
NIRE 31.300.025.187
Publicly-held Company

ESTÁCIO PARTICIPAÇÕES S.A.
CNPJ/MF No. 08.807.432/0001-10
NIRE 31.300.282.050
Publicly-held Company

MATERIAL FACT

KROTON EDUCACIONAL S.A. (“**Kroton**”) and **ESTÁCIO PARTICIPAÇÕES S.A.** (“**Estácio**”, and jointly with Kroton, “**Companies**”), in furtherance to Material Facts dated June 2 and 21, 2016, and July 1 and 8, 2016 disclosed by Kroton, pursuant to article 3 of the CVM Rule no. 565, dated June 15, 2015, hereby inform the following regarding the merger, by Kroton, of all the shares issued by Estácio, in accordance with the merger agreement (*Merger Agreement e justificação*) (“**Merger Agreement**”) executed by the Companies’ and their respective management on July 8, 2016 (“**Transaction**”), which will be submitted to the approval by each of the Companies’ shareholders, in extraordinary shareholders meetings, to be held, in the first call, on August 15, 2016.

1. COMPANIES INVOLVED IN THE TRANSACTION AND THEIR ACTIVITIES

1.1. Kroton.

(a) *Identification.* **KROTON EDUCACIONAL S.A.**, publicly-held company with head offices in the City of Belo Horizonte, State of Minas Gerais, at Rua Santa Madalena Sofia, 25, Postal Code 30380-650, enrolled with the Brazilian National Taxpayer’s Registry (“CNPJ/MF”) under No. 02.800.026/0001-40.

(b) *Activities.* Kroton is a non-operational company whose main corporate purpose is to hold investments, whether as quotaholder or shareholder, in companies transacting business in the management of educational activities.

1.2. Estácio.

(a) *Identification.* **ESTÁCIO PARTICIPAÇÕES S.A.**, publicly-held company with head offices in the City of Rio de Janeiro, State of Rio de Janeiro, at Avenida Venezuela, 43, 6th floor, Saúde, Postal Code 20081-311, enrolled with the CNPJ/MF under No. 08.807.432/0001-10.

(b) *Activities.* Estácio is a company that develops, together with companies controlled by Estácio, higher education activities, whether classroom based or distance learning, professional education and other related educational areas.

2. DESCRIPTION AND PURPOSE OF THE TRANSACTION

2.1. Description.

The Transaction, the completion of which shall be subject to the applicable corporate approvals and observance of the conditions referred to in item 5 below, shall result:

- (a) in the ownership, by Kroton, of all of the shares issued by Estácio;
- (b) in the receipt, by Estácio's shareholders that own shares merged by Kroton ("**Estácio Shareholders**") for every common share issued by Estácio held on the Transaction Closing Date (as defined below), of 1.281 common share issued by Kroton ("**Reference Exchange Ratio**") considering, that (i) Estácio's capital stock, on the Transaction Closing Date, shall consist of, 307,680,459 common shares, excluding treasury stock, and (ii) Kroton's capital stock, on the Transaction Closing Date, shall consist of, 1,618,617,238 common shares, excluding treasury stock, and adjusted as set forth in Clause 2 of the Merger Agreement (after giving effect to the adjustments, the "**Adjusted Exchange Ratio**")
- (c) distribution of extraordinary dividends to Estácio's shareholders in the total amount of R\$ 420,000,000.00 (as set forth by item 2.2.1 of the Merger Agreement), representing, approximately, R\$ 1.37 for each share issued by Estácio (considering the number of shares issued by Estácio mentioned above).

After the Conditions Precedent are fulfilled (as described in item 3.1 of the Merger Agreement), the Companies shall disclose, a joint material fact indicating the date on which the Transaction shall be concluded, on which date the shares issued by Estácio will no longer be negotiated and the existing shareholders will receive the newly-issued common shares in Kroton's capital stock ("**Transaction Closing Date**").

On the business day immediately prior to the Transaction Closing Date and in accordance with item 4.1. below, Kroton's board of directors shall hold a meeting to (i) certify, as objectively determined in accordance with the adjustments set forth in Clause 2 of the Merger Agreement, the Adjusted Exchange Ratio, which shall determine the amount of shares to be issued by Kroton as a result of the Transaction; and (ii) register that the Transaction shall be concluded on the Transaction Closing Date.

2.2. Purpose of the Transaction.

The purpose of the Transaction is to implement the combination of business between the Companies as previously described in the material facts disclosed by Kroton on June 2 and 21, 2016, and July 1 and 8, 2016, through the merger, by Kroton, of all of the shares issued by Estácio, at market value, in accordance with articles 224, 225 and 252 of Law No. 6.404/76.

3. MAIN BENEFITS, COSTS AND RISKS OF THE TRANSACTION

3.1. Main Benefits.

The Transaction, considering the completeness of the Companies, shall bring benefits to Companies, their businesses, students, shareholders and other stakeholders. The Transaction has a strategic rationale due to the high geographic complementarity, significant potential for synergies and efficiency gains (per the analysis based upon publicly-available information), and particularly, the strengthening of the investments in the quality of their educational services.

3.2. Costs of the Transaction.

Kroton's management estimates that the costs for carrying out the Transaction will be approximately R\$ 30.000.000,00, including costs with publications, auditors, valuation experts, lawyers and other professionals hired as advisers in the Transaction.

Estácio's management estimates that the costs for carrying out the Transaction will be approximately R\$ 30.000.000,00, including costs with publications, auditors, valuation experts, lawyers and other professionals hired as advisers in the Transaction.

3.3. Risks of the Transaction.

Kroton and Estácio currently operate and, until the completion of the Transaction, will continue to operate, independently from each other.

The completion of the Transaction is subject to the approval by the Economic Defense Administrative Council - CADE and the Companies cannot guarantee that such approval will be obtained (or if it will be obtained with certain restrictions or subject to conditions) nor whether the Companies will proceed with the Transaction in case the approval by CADE does not observe the limits set forth in the Merger Agreement. If the Transaction is not performed for this reason, the Companies may suffer significant adverse effects.

The economic and financial position of Kroton and Estácio on the date of the completion of the Transaction may vary significantly in relation to the date on which the Merger Agreement was executed. The variation of the value of each of the Companies may result from a range of factors that are beyond the control of the Companies, including, changes to their businesses, operations and projections, timetables and regulatory issues and general market and economic conditions, as well as those related to the educational sector. Kroton and Estácio cannot terminate the Merger Agreement as a result of changes to the economic and financial position of any of the Companies (except as expressly set forth in the Merger Agreement); nor modify the Adjusted Exchange Ratio except in accordance with the terms set forth in Clause 2 of the Merger Agreement.

The success of the transaction will depend, in part, on the Companies' ability to capture growth opportunities and synergies and efficiency gains resulting from the business combination. However, we cannot guarantee that such opportunities, cost reductions and synergies will be successful or entirely achieved. If these objectives are not met successfully,

the expected benefits from the Transaction may not occur in full or entirely, or may take longer than expected to occur.

Both Companies will face important challenges in integrating roles, combining the organizations, their processes and operations in a timely and efficient manner, as well as retaining employees. The integration of the Companies will be complex and will take time and management of both the Companies will have to dedicate substantial financial resources and efforts in the implementation thereof. The integration process and the other aspects of the Transaction may result in challenges for each of the Companies in their respective normal course of business, which could adversely affect their ability to maintain their relationships with customers, suppliers, employees, and others with whom the Companies interact, or adversely affect the achievement of the benefits expected from the Transaction.

4. EXCHANGE RATIO OF SHARES AND PRICING CRITERIA

4.1. Exchange Ratio.

As a result of the Transaction, new common shares will be issued by Kroton to Estácio's shareholders, all registered and with no par value, in exchange for their common shares issued by Estácio, based on the Adjusted Exchange Ratio (objectively determined only by the adjustments foreseen on Clause 2 of the Merger Agreement), and the Companies shall determine the exact amount of shares to be effectively issued.

In case the Companies do not reach, within 15 days, an agreement regarding the number of shares to be issued, the parties agree to immediately submit the dispute to PwC or any other audit firm to be chosen in mutual agreement among KPMG, Ernst & Young or Deloitte, in order for such third party to determine, within 15 days, such number of shares (which number shall necessarily be comprised within the range consisting of the amount of shares to issued, as indicated by Kroton, and the amount of shares to be issued, as indicated by Estácio), and such decision shall be binding upon the Companies.

4.2. Criteria for the Exchange Ratio.

The exchange ratio has been negotiated between independent parties. Kroton's and Estácio's management, each engaged the advice of investment banks of international standing to assist the respective Board of Directors in the informed decision regarding the financial parameters of the Transaction.

5. SUBMISSION TO THE LOCAL OR FOREIGN GOVERNMENT AUTHORITIES

The completion of the Transaction shall be, in accordance with the terms of article 125 of the Brazilian Civil Code, subject to ("**Conditions Precedent**"):

- (a) the approval of the Transaction by the Economic Defense Administrative Council - CADE, subject to Clause 6 of the Merger Agreement;
- (b) (i) the 15-day period, counted from the date of publication of CADE's General Superintendence for third parties to potentially appeal or for analysis by Cade's

tribunal, in accordance with article 65, I and II, of Law No. 12.529/11 and article 122 of the CADE's Internal Rules, approved by Resolution No. 1/2012, without any appeal or analysis; (ii) if the Transaction is examined by CADE's tribunal, the publication of the final decision in the Federal Official Gazette, considering possible filed motions for clarification, as set forth in article 218 onwards in CADE's Internal Rules, with the corresponding full authorization for the Companies to proceed with the Transaction's completion.

The Companies shall jointly submit the Transaction to CADE and believe that the disposition of assets will be necessary in order to obtain approval from CADE. The Companies intend to negotiate divestment obligations with CADE, and cannot guarantee that they will succeed in such negotiations, nor which assets shall be divested nor whether the Companies will choose to conclude the Transaction if the restrictions imposed by CADE represent a reduction of 15% or more of the combined annual net revenue of the Companies for the 2015 fiscal year, to be calculated in accordance with item 6.4(a) of the Merger Agreement; and/or the disposal or permanent restriction of the use of Estácio's brand ("**Restriction Threshold**"). The Company that opts not to proceed with the Transaction by reason of the Restrictions exceeding the Restriction Threshold, will pay to the other Company a penalty of R\$150 million, as set forth in the Merger Agreement. Any restrictions to the Transaction imposed or negotiated with CADE shall not modify the Adjusted Exchange Ratio.

6. RIGHT OF WITHDRAWAL AND REIMBURSEMENT AMOUNT

There shall be no right of withdrawal for the shareholders that hold shares issued by Kroton or Estácio that do not vote in favor of the Transaction, that abstain from voting or that do not attend the respective general shareholders meeting, considering that the provisions of article 137, item II of Law No. 6.404/76 and article 9 of the Normative Ruling CVM 565 are not applicable to Kroton or Estácio.

7. OTHER RELEVANT INFORMATION

7.1. The effectiveness of the Transaction shall depend on the completion of the following acts, all of which interdependent and the effects of which are subject to the fulfillment of the Conditions Precedent, which shall all occur tentatively on the same date:

- (a) general shareholders meeting of Estácio to (i) approve the waiver of the requirement for Kroton to carry out a public tender offer for the acquisition of the shares issued by Estácio as set forth in article 37 of the Bylaws of Estácio within the context of the Transaction; (ii) approve the Merger Agreement; (iii) approve the Transaction; and (iv) authorize the subscription, by its officers, of the new shares to be issued by Kroton; and
- (b) general shareholders meeting of Kroton to (i) approve the creation of New Kroton Plan, as set forth in item 5.3. of the Merger Agreement, which shall be contingent upon the approval of the other matters in the agenda; (ii) in case management's proposal as described in item "I" above is approved without amendments, to approve the Merger Agreement; (iii) to ratify the engagement of the Appraiser;

(iv) to approve the appraisal report; (v) to approve the Transaction; (vi) to authorize the capital stock increase to be subscribed and paid in by the officers of Estácio, at Kroton's general shareholders meeting, in accordance with article 252, § 2º of Law No. 6.404/76, provided that the final number of shares to be issued by Kroton (and the amendment to its bylaws) shall be contingent upon the definition of the Adjusted Exchange Ratio set forth in Clause 2 of the Merger Agreement; (vii) to approve the amendment to its bylaws, substantially as set forth in Annex 5.1(b) of the Merger Agreement, to amend article 6 of its bylaws, to authorize the increase of Kroton's authorized capital from 2,000,000,000 shares to 2,500,000,000 shares.

7.2. Estácio alerts its shareholders on the possibility of applicability of income tax on capital gain, as well as other taxes that may result from the merger of the shares issued by Estácio. Therefore, Estácio recommends that each of its shareholders consult their external tax advisers to discuss potential tax impacts arising from the Transaction.

The Merger Agreement and the appraisal report are available to the Companies' shareholders at the respective headquarters, at the Investor Relations website of Kroton (www.kroton.com.br/ri/) and at Estácio's (www.estacioparticipacoes.com.br/), and at the Comissão de Valores Mobiliários's website (www.cvm.gov.br) and at BM&FBOVESPA – Bolsa de Valores, Mercadorias e Futuros' (www.bmfbovespa.com.br).

For further information, please contact the Investor Relations Departments at Kroton and/or Estácio.

Belo Horizonte, July 14, 2016.

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