









G8 Education ltd

ANNUAL REPORT 2018

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OUR VALUES

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PASSION

"We have an infectious, positive attitude and are excited every day to be a part of our unique calling."



INNOVATION

"There are endless possibilities when working in our sector. Children see the world in a simpler way than adults and sometimes it's the simple path that leads to the greatest innovation."





DEDICATION

"We go home tired but satisfied everyday knowing that we put our hearts and souls into making our families and children proud to be our partners."



G8 Education ltd

COMPASSION

"Our smallest acts of kindness often put the largest smile on a face."

INTEGRITY

"Our moral compass points true north and is the beacon for the little eyes that watch and interpret our actions."



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OUR PEOPLE









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CENTRE MANAGER CONFERENCE

The 2018 Centre Manager Conference enabled our people to collaborate, connect and celebrate the important role they play in the lives of thousands of Australian families.

More than 600 delegates joined together for the two-day event in Brisbane themed Opportunity. G8 Education's highest-performing centres and individuals were recognised, and keynote speakers delivered entertaining and insightful presentations which highlighted the opportunity we have to build and operate a network of amazing early education centres that deliver our purpose of creating spaces that shape generations both now and next.



SUPPORTING AND CELEBRATING THE IMPORTANT ROLE WE PLAY

Our people are our most valued asset and 2018 saw significant investment in employee remuneration, professional development and learning programs, including wage increases in our centres above and beyond.

During 2018 G8 Education made some significant improvements in the way we support our people to ensure an even better experience for the children and families in our care.

Recognition was a recurring theme throughout the business, with a number of initiatives implemented to identify and celebrate the incredible impact our people have on the lives of the children and families who attend our centres. Early Childhood Educators' Day in September provided a platform for G8 Education and its families to say thank you on a national scale, with the celebrations showcasing the positive performance of all of the Standout Educators to both internal and external audiences.

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TEAM SAFETY

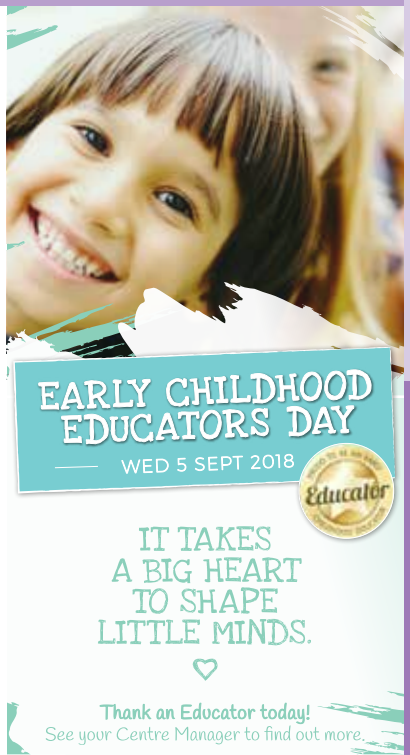
Throughout the second half of 2018 we invested heavily in our safety management system framework. This included a review of our Health and Safety Policy and procedures and development of programs including our new "Toy Box Talks" that seeks to engage both team members and our children. Our framework aligns to the ISO AS/NZS 45001 standard for occupational health and safety and has integrated our child safety quality standards.

EDUCATORS DAY

Early Childhood Educators Day was an opportunity for G8 Education to show its appreciation for all of the incredible work that our Educators do each day.

G8 Education announced the following six 'Standout Educators' on Early Childhood Educators Day – who were selected out of 55 finalists – from over 3,200 parent and peer nominations that were received across the G8 network.

NSW/ ACT	**Nicole Gaby**	Creative Garden Early Learning Centre Heathcote
VIC	**Stephanie James**	Casa Bambini Coburg
NSW	**Mel Hendry**	Bluebird Early Education Centre Empire Bay
VIC	**Vicky Packer**	First Grammar Gumnut Drive
QLD	**Amanda Constable**	Creative Garden Early Learning Centre Sinnamon Park
WA/SA	**Hayley Miller**	Great Beginnings Child Care – Butler

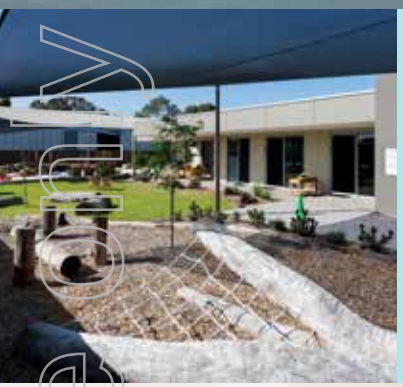


Those Standout Educators were nominated by families and team members for being someone who has had a significant impact on the children and families they care for.

We are proud to recognise these incredible team members.



16
NEW CENTRES
ACQUIRED IN 2018







OUR

NEW CENTRES





NETWORK
GROWTH





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CENTRES

REFURBISHED CENTRES









137

CENTRES REFURBISHED IN 2018



QUALITY

IMPROVEMENT

OUR PORTFOLIO

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SINGAPORE
17
CENTRES

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WESTERN AUSTRALIA
68
CENTRES

QUEENSLAND
73
CENTRES



SOUTH AUSTRALIA
29
CENTRES

VICTORIA
134
CENTRES

NSW
188
CENTRES

ACT
10
CENTRES

TOTAL
519
CENTRES

Creative Garden Early Learning Centre
Early Learning Services Committed to Child Care
Greenwood Early Education Centres
Kinder Haven Committed to growing the whole child
headstart Early Learning Centres
Kindy Patch Kids
Penguin Childcare Early Learning Centres
koolkids early learning centres
Sandcastles
The Learning Sanctuary
World of Learning

SUSTAINABILITY AND COMMUNITIES

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Our vision

G8 Education Limited recognises the important role it plays in the lives of the children in our care, the families we support and the community in which we operate. We aim to contribute to a robust, equitable and sustainable future for all stakeholders. G8 Education's Sustainability Strategy reinforces our commitment to foster a sustainable society in our education programs, community engagement and corporate practices with a view to restoring, replenishing and reviving the environmental and human resources for children now and into the future.



Supporting the Community

G8 Education's teams are a collective force of almost 10,000 people who have worked hard during 2018 to support our communities by:

- Raising money for the Drought Relief Appeal
- Collecting band-aids for Evie's Band-aid Bonanza
- Cleaning up Australia
- Gathering pyjamas for Pyjama day
- Nappy collections
- Fun runs
- Blood donations
- Raising money for local charities

Our Practices

G8 Education engages in a broad range of sustainable practices both within its Centres and at the Support Office:

- Recycling
- Gardening
- Biodiversity
- Energy conservation
- Water conservation
- Sustainable equipment purchases
- Environmentally friendly initiatives
- Sustainability education



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SUSTAINABILITY AND COMMUNITIES 2025

Goals and Ambitions

As an education and care community, G8 Education has the opportunity to encourage and increase awareness of environmental responsibilities and implement practices that contribute to a sustainable future.

Children are supported to become environmentally responsible and to show respect for the environment and the resources we use and to make a positive impact in preserving the world.

Our people

G8 Education realises that our most important asset are our valued team members. By investing in developing and retaining the best people, we will not only meet, but exceed the expectations of our families and children in our care. G8 Education will:

- Develop a highly engaged, diverse and trusted workforce
- Increase engagement score to 90% by 2022
- Provide health and wellbeing support to our team
- Become an employer of choice in Early Childhood Education by 2021



Our Communities

G8 Education will continue to support the communities in which we operate by:

- Finding opportunities to add services into our network so parents can spend more time with their families
- Developing and implementing a National Reconciliation Action Plan to close the gap between Aboriginal and Torres Strait islander people and other Australians
- Finding opportunities to give back to the community through paid volunteer leave and community reinvestment charities

Our planet

G8 Education is committed to reducing our carbon footprint and is working towards a vision of being net positive in our energy consumption by 2025.

To achieve this, we will:

- Invest in solar and green energy for our existing centres
- Integrate sustainable building design principles for all new builds

To reduce the environmental impact of our operations, G8 Education will:

- Ensure 80% of our waste is diverted from landfill and recycled by 2025
- Identify opportunities to continue to reduce waste creation across our network
- Identify opportunities to recycle our waste into clean energy

G8 Education has partnered with Cleanaway to grow and evolve our sustainability commitment. Everything Cleanaway does has sustainability at its core. From educating children on the importance of sorting waste, to working with all their customers and communities on finding innovative ways to increase the effectiveness of their waste management and make a sustainable future possible.

EXECUTIVE LEADERSHIP TEAM

The Executive Leadership Team is responsible for developing and managing the Group's strategy as well as ensuring that day-to-day operations are conducted to meet key customer, team, safety and financial targets and expectations. The team is made up of senior executives from a range of industries, providing a diversity of thought and experiences to drive innovation throughout the Group.









STRATEGIC PARTNERSHIPS

To support our delivery of superior early childhood education and care, G8 Education has partnered with a number of leading organisations from the sector.

These include:

- Bravehearts to deliver tailored child protection training
- Semann & Slattery and Dr Kaylene Henderson to provide improved training and staff development programs such as our Educational Excellence Program and online learning tool Raising Good Kids
- Swinburne Online (part of Swinburne University) to provide students with valuable sector experience that compliments their studies
- Jennifer Ribarovski, renowned early childhood education advocate, to provide a series of workshops focused on further bringing the National Quality Framework to life in our Centres

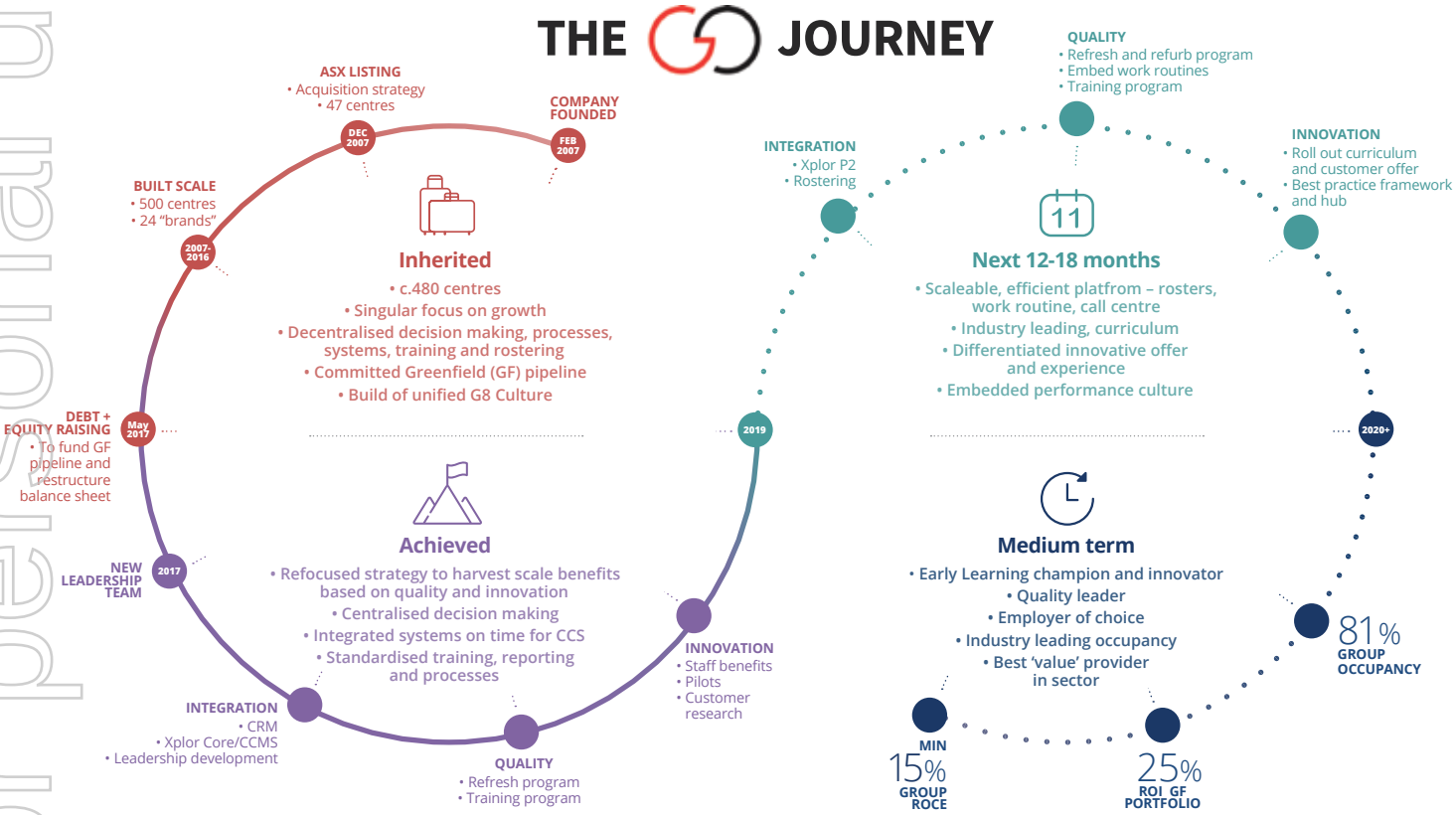
Bravehearts
Educate Empower Protect Our Kids

SWINBURNE UNIVERSITY OF TECHNOLOGY

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THE G8 JOURNEY



AT A GLANCE 2018

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UNDERLYING EPS

17.54

CENTS PER SHARE



NUMBER OF

519

CENTRES OWNED





UNDERLYING NPAT

$79.4

MILLION

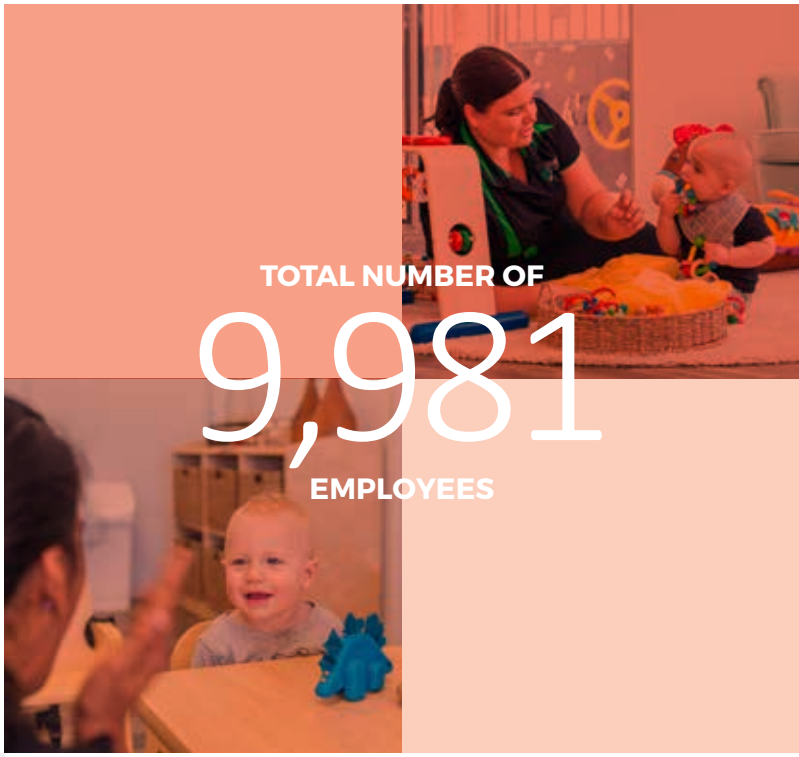


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UNDERLYING EBIT

136.3

MILLION



TOTAL NUMBER OF

9,981

EMPLOYEES



TOTAL REVENUE

$858.2

MILLION

LICENCE CAPACITY OF OWNED CENTRES

41,547

PLACES

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2012	2013	2014	2015
$179.9M	$275.2M	$491.3M	$706.2M
REVENUE	**REVENUE**	**REVENUE**	**REVENUE**
$30.0M	$50.5M	$101.4M	$146.4M
UNDERLYING EBIT	**UNDERLYING EBIT**	**UNDERLYING EBIT**	**UNDERLYING EBIT**
$19.7M	$32.2M	$60.6M	$87.1M
UNDERLYING NPAT	**UNDERLYING NPAT**	**UNDERLYING NPAT**	**UNDERLYING NPAT**
9.2 cents	11.72 cents	18.57 cents	23.87 cents
UNDERLYING EPS	**UNDERLYING EPS**	**UNDERLYING EPS**	**UNDERLYING EPS**





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2016	2017	2018
$778.5M	$796.8M	$858.2M
REVENUE	**REVENUE**	**REVENUE**
$160.6M	$156.0M	$136.3M
UNDERLYING EBIT	**UNDERLYING EBIT**	**UNDERLYING EBIT**
$93.3M	$92.9M	$79.4M
UNDERLYING NPAT	**UNDERLYING NPAT**	**UNDERLYING NPAT**
24.68 cents	21.8 cents	17.54 cents
UNDERLYING EPS	**UNDERLYING EPS**	**UNDERLING EPS**





CHAIRMAN'S REPORT

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Dear Shareholders,

On behalf of the Board, I am pleased to present the G8 Education Limited 2018 Annual Report.

During 2018, despite significant challenges in the market and regulatory environment, the Group made significant progress in building solid foundations across its people, asset and capital bases to ensure sustained growth well into the future.

As flagged in last year's Annual Report, 2018 was a period of significant change in the sector. The heightened level of construction activity that was present in 2017 continued into 2018, putting pressure on industry occupancy levels. In July 2018, a fundamental overhaul of the child care subsidy framework was implemented, with the intention of driving workforce participation and hence demand in the sector.

What has not changed is the tremendous opportunity for the sector to make a profound impact on Australia's future, with extensive research and publications such as the Lifting Our Game Report clearly articulating the social, emotional and cognitive benefits of quality early education.

2018 represented the second year of a strategic and cultural transformation for G8 Education, with the strategy being focused on harvesting the benefits of the scale advantage that had been built in the period from 2010 to 2016. In broad terms, we believe that the Group has a fantastic opportunity to use its scale to build a differentiated experience for both its families and its team, with the end result that our centres become the centre of choice in all of the markets in which we operate.

A central component of building the centre of choice is the quality of the centre, from both an asset and team capability perspective.

In this respect, I am pleased to report that over 170 refurbishment and asset improvement activities were undertaken in 2018 – a record result. From a team capability viewpoint, the Group developed and rolled out new training programs in relation to the national quality standards, with further programs currently under development for roll-out in 2019.

These activities improved the quality of centres, with G8's portfolio centre quality exceeding national standards for the first time. This encouraging performance provides a solid foundation for continued growth in quality (and occupancy) in future years as the strategy continues to be implemented.

The financial performance of the Group in 2018 reflected the impact of the changing market environment and the impact of the Group's strategy. While the overall result was disappointing, with EBIT reducing by 13% to $136.3 million, this was primarily driven by the first half where the combination of supply increases impacting occupancy and the negative impact of implementing regulatory changes to wages resulted in H1 EBIT being $13 million behind last year.

In the second half, a more favourable subsidy framework and improvements flowing from strategy implementation resulted in EBIT from the organic centre group being broadly in line with the prior corresponding period and $7 million lower after investment in the support office to facilitate G8 Education's strategic plan. This second half performance provides momentum and confidence leading into 2019. Cash flow generation continued to be strong, with $105.9 million in operating cash flows being generated and $48.1 million being paid in dividends to shareholders.

Further improvements to the Group's capital base were made in 2018, with the successful execution of a $500 million syndicated bank debt facility during the year. The facility will be used to refinance the Group's $200 million bank debt facility and $270 million Singapore bond facility, providing increased capital with improved tenor and pricing and ensuring the Group has all the capital that is required to deliver its current strategy.

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Looking forward to 2019, while we expect the demand/supply environment to continue to be challenging as recently built centres mature, the new development pipeline is forecast to gradually slow down. When combined with forecast increase in demand from the new subsidy, this is expected to result in more favourable market conditions in 2019. With the encouraging progress in relation to implementation of our strategy, we feel strongly that we are positioned well to take advantage of any opportunities that may arise whilst maintaining our high levels of service provision to Australia's communities.

On behalf of the Board, I would like to take this opportunity to thank all of our shareholders, employees and customers for their ongoing support in 2019.

Yours sincerely,

Mark Johnson

Mark Johnson
Chairman

MANAGING DIRECTOR'S REPORT

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Dear Shareholders,

2018 was a year in which G8 Education endured challenging market conditions to deliver good earnings momentum during the year, while making solid progress on transforming the Group to enable sustainable growth in future years.

G8 Education is the leading for-profit early education provider in Australia, with over 50,000 children attending our services in any given week and almost 10,000 employees educating and caring for those children. This scale is broadly three times greater than our nearest for-profit competitors. We believe that we have a real opportunity to use our scale advantage to provide a differentiated offer to our families, centred on the quality of education and care, breadth of offer and through the provision of a highly engaging experience for our families. We also believe that our scale affords us the opportunity to provide a market-leading employment offer, with our engaged and capable team members reinforcing the quality and experience for our families.

2018 represented a foundation-building year in terms of building a differentiated experience for our families. During the year we undertook extensive research to truly understand the drivers and pain points of our families at every stage of their journey, culminating in a customer journey map that will guide changes in operating processes in future years to ensure we provide engaging experiences for families. A pilot of a centralised customer engagement centre was undertaken during 2018 with pleasing results in terms of converting inbound enquiries to additional bookings. A full-scale roll-out is currently underway, with completion due in early April 2019. Finally, the Group trialed a number of product innovation pilots during the year, covering allied health, literacy programs and sensory learning environments. The performance of these pilots will be assessed during the first half of 2019 with a view to rolling out the successful pilots from the second half of 2019.

Our strategic focus from a team member perspective is to provide a compelling employment offer, covering career pathways and training, as well as market-leading remuneration, reward and recognition programs. As part of a values-based, purpose-driven culture, these programs will enable us to recruit and retain highly capable and engaged team members. During 2018, the Group enhanced its cultural foundation via the implementation of a behavioural competency framework. Significant work was undertaken in relation to remuneration in the year, with the roll-out of a new total pay and benefits framework and a revamped incentive framework for centre-based teams. A partnership to provide discounted offers to team members covering hundreds of retailers and service providers was implemented during the year, with encouraging numbers of team members accessing the opportunity to stretch their dollar further. Finally, a new operational training program for teams was rolled out, focusing on up-skilling the teams in terms of new national quality standards.

From an operational perspective, in 2018 we acquired a total of 16 early education centres and divested 8 centres in Australia. This brought our total number of centres as at 31 December 2018 to 502 in Australia and 17 in Singapore. These centres provide a total combined licensed capacity of 41,547 places. It is pleasing to report that our portfolio of greenfield centres that have been opened during the year is performing in line with expectations.

The significant increases in supply over the last two years had a materially negative impact on the market in 2018, particularly in the first half. The resulting impact on occupancy and negative impact of implementing regulatory changes in relation to wages weighed down the profit of the Group, with Earnings Before Interest and Tax ("EBIT") reducing by $20 million to $136.3 million in 2018. The primary impact was felt in H1, with the H2 result being broadly in line with the prior corresponding period. It was pleasing to see occupancy growth in 2018 outstrip the prior year, with occupancy levels in December 2018 being ahead of last year. This provides good momentum leading into 2019. The Group's ability to convert Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") into cash remained strong with 107% cash conversion in 2018, generating operating cash flows of $105.9 million.

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OUTLOOK FOR 2019

The Group's occupancy growth in the latter part of 2018, when combined with a slowdown in supply growth over the same period, are positive signs that the operating environment will be more favourable in 2019. While the maturing of centres that were opened during 2017 and 2018 are forecast to put pressure on market occupancy levels in 2019, the new child care subsidy regime that was introduced in July 2018 is expected to offset this increased supply, although the extent and timing is still unclear.

The Group is preparing to respond to any ongoing challenges in the market environment by driving occupancy focus throughout the network, assisted by initiatives such as the centralised customer engagement centre and enhancements to our child care management system during the first half of the year. In addition, the appointment of the Group's Head of Early Education and Learning (Julie Madgwick) in January 2019 will precede a full review of our current learning curriculum, with enhancements to our curriculum likely to be undertaken during the second half of the year. We are particularly excited by the opportunity to enhance the learning experiences for both our families as well as our teams as part of this program. The other focus in the second half of 2019 will be the implementation of a new rostering system to drive improved rostering processes and wage controls.

We continue to believe there are significant organic and acquisition growth opportunities for the Group. Our growth strategy contains the following key elements:

- Driving occupancy in existing centres through development of a differentiated offer focused on quality and education, value, as well as customer experience. To facilitate this, the Group will continue to invest in improving asset and curriculum quality, while also developing new revenue streams for existing and new centres that deliver enhanced value to our families and better utilise our existing assets;
- Being the employer of choice by engaging and developing our team through a series of initiatives such as enhanced professional and leadership training and innovative remuneration, benefits and recognition frameworks; and
- Continuing to grow our network of child care centres through acquisition and greenfield developments.

This strategy, supported by a passionate and capable team, will leave us well placed to deliver sustainable value to children, families and our shareholders in the years ahead.

Yours sincerely,



Gary Carroll
CEO and Managing Director

KEY OPERATIONAL INFORMATION

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	Consolidated Group
Number of owned centres at year end	519
Licence capacity of owned centres at year end	41,547
Total Number of employees at year end	9,981
Total number of full time equivalent employees at year end	**7,698**

UNDERLYING NET PROFIT AFTER TAX RECONCILIATION (UNAUDITED, NON IFRS)

Consolidated Year end 31 December

	2018 $'000	2017 $'000	Variance
Revenue#	857,758	795,759	8%
Expenses	(725,574)	(644,881)	13%
Net Financing Cost	(28,558)	(33,097)	(14%)
Net Profit Before Tax	103,626	117,781	(12%)
Net Profit After Tax	71,831	80,581	(11%)
Add/(Less) non-operating transactions:			
Contingent consideration not paid*	(2,199)	(243)	
Acquisition related expenses	5,451	3,965	
Share based payment expense*	-	(108)	
Write off of borrowing costs*^	3,078	5,201	
(Gain)/loss on disposal of assets/centres	825	1,542	
Foreign currency translation loss*^	431	1,936	
Underlying Net Profit After Tax	79,417	92,874	(14%)
Underlying EPS (cents per share)^^	17.54	21.80	(20%)
Earnings Before Interest and Tax	132,184	150,878	
Add/(Less) non-operating transactions:			
Contingent consideration not paid*	(2,199)	(243)	
Acquisition expenses	5,451	3,965	
Share based payment expense	-	(108)	
(Gain)/loss on disposal of assets/centres	825	1,542	
Underlying Earnings Before Interest and Tax^^^	136,261	156,034	(13%)

Adjustment for interest income of $0.4m excluded from revenue and included in financing costs (2017 $1.0m)

* Non-Cash adjustments.

^Tax adjusted

^^ Underlying EPS equals Underlying NPAT divided by weighted average number of shares

^^^Underlying EBIT equals NPAT plus income tax expense plus net finance costs plus non-operating transactions

DIRECTOR'S REPORT

THE DIRECTORS PRESENT THEIR REPORT ON THE CONSOLIDATED ENTITY (REFERRED TO HEREAFTER AS THE GROUP) CONSISTING OF G8 EDUCATION LIMITED AND THE ENTITIES IT CONTROLLED AT THE END OF, OR DURING, THE YEAR ENDED 31 DECEMBER 2018.

ALL OF THE FOLLOWING PERSONS WERE DIRECTORS OF G8 EDUCATION LIMITED DURING THE FINANCIAL YEAR AND UP TO THE DATE OF THIS REPORT UNLESS OTHERWISE STATED

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Mark Johnson

B. Comm, FCA, CPA, FAICD

CHAIRMAN, INDEPENDENT NON-EXECUTIVE DIRECTOR

SINCE 1 JANUARY 2016

Mark Johnson is an experienced chairman and company director. He is currently a Director of Coca-Cola Amatil Limited, The Hospitals Contribution Fund of Australia Limited (HCF) and a number of owner managed businesses and charities. He was previously a Director of Westfield Corporation and HSBC Bank Australia.

Prior to embarking on his Board career, Mark was the Chief Executive Officer and Senior Partner of PricewaterhouseCoopers (PwC), one of Australia's leading professional services firms, from July 2008 to June 2012. His former roles include Chairman of the PwC Foundation, member of the Auditing and Assurance Board and Deputy Chair of the Finance and Reporting Committee at the Australian Institute of Company Directors. Mark is a Fellow of the Institute of Chartered Accountants and the Australian Institute of Company Directors, and holds a Bachelor of Commerce from the University of NSW.

Special responsibilities: Member of the Audit and Risk Management Committee, Nomination Committee and People and Culture Committee

Other current listed public Company Directorships: Coca-Cola Amatil Limited (appointed 6 December 2016)

Former listed public Company Directorships in the last three years: Westfield Corporation Limited (resigned 8 June 2018)



Gary Carroll

B.Comm (Hons), B.Law (Hons), CPA

MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER

SINCE 1 JANUARY 2017

Gary Carroll was appointed as Managing Director and CEO on 1 January 2017, having previously served as Chief Financial Officer for the Group from 25 July 2016. Prior to joining G8 Education, Gary had over 15 years' experience in senior leadership roles across multiple industries, including being Chief Financial Officer and Chief Supply Chain Officer at Super Retail Group Limited. Gary holds Bachelor of Commerce (Hons) and Bachelor of Law (Honours) degrees from the University of Queensland and is a Fellow of CPA Australia.

Special responsibilities: Nil

Other current listed public Company Directorships: Nil

Former listed public Company Directorships in the last three years: Nil

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Susan Forrester, AM

BA, LLB (Hons) EMBA, FAICD

INDEPENDENT NON-EXECUTIVE DIRECTOR

SINCE 1 NOVEMBER 2011

Susan Forrester, AM, is a highly respected and accomplished professional Company Director with a powerful blend of management, board and consulting experience across ASX listed, public and private companies. She draws on 25 years of executive management expertise in large professional services firms, covering law, finance, HR, business and governance.

Susan has a proven leadership track record as a CEO and senior executive in the national professional services and finance industries. Her in-depth expertise in financial services and prudential supervision draws on her experience as a banking and finance lawyer, corporate counsel with the predecessor to the Australian Prudential Regulation Authority and as Executive Director with Queensland Treasury Corporation. Susan has gained a wealth of experience at the board table in complex corporate transactions, including private and public company mergers and acquisitions, industry aggregations and overseeing successful capital raisings.

On Australia Day 2019, she was awarded a Member (AM) in the General Division of the Order of Australia for significant service to business through governance and strategic roles and as an advocate for women.

Special responsibilities: Chair of the People and Culture Committee and Member of the Nomination Committee

Other current listed public Company Directorships: Over the Wire Holdings Ltd (appointed 1 November 2015), Xenith IP Group Ltd (appointed 1 October 2015) and Chair – National Veterinary Care Ltd (appointed 1 February 2015)

Former listed public Company Directorships in the last three years: Nil



Brian Bailison

B.Com., B.Acc (Cum Laude), ACA

INDEPENDENT NON-EXECUTIVE DIRECTOR

SINCE 25 MARCH 2010

Brian Bailison has over 25 years' experience in finance, corporate finance and operations from senior roles in listed and unlisted businesses in South Africa and Australia, including Rand-Merchant Bank Limited (investment banking), the Ivany Investment Group (diversified investment group) and PAYCE Consolidated Limited (diversified property development group).

Special responsibilities: Chair Audit and Risk Management Committee and Member of the Nomination Committee

Other current listed public Company Directorships: Nil

Former listed public Company Directorships in the last three years: Nil

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David Foster

B.App.Sci, MBA, GAICD, SFFin

INDEPENDENT NON-EXECUTIVE DIRECTOR

SINCE 1 FEBRUARY 2016

David Foster enjoyed a successful career in financial services spanning over 25 years. His last executive role was as Chief Executive Officer of Suncorp Bank, Australia's 5th largest bank. Since leaving Suncorp, Mr Foster has further developed his career as an experienced Non-Executive Director with a portfolio of Board roles across a diverse range of industries including financial services, retailing, local government, education and professional services. He currently serves as Chairman of MotorCycle Holdings Limited and Thorn Group Limited and as Director of Genworth Mortgage Insurance Australia Limited.

Special responsibilities: Member of Audit and Risk Management Committee and Chair of Nomination Committee

Other current listed public Company Directorships: MotorCycle Holdings Limited (appointed 8 March 2015), Thorn Group Limited (appointed 1 December 2014) and Genworth Mortgage Insurance Australia Limited (appointed 30 May 2016)

Former listed public Company Directorships in the last three years: Kina Securities Limited (retired 23 May 2018)



Margaret Zabel

FAICD, MBA, BMath

INDEPENDENT NON-EXECUTIVE DIRECTOR

SINCE 1 SEPTEMBER 2017

Margaret Zabel was appointed as Non-Executive Director on 1 September 2017. Margaret is a specialist in customer centred business transformation, brand strategy, innovation, digital communications, customer experience and change leadership. She has 20 years senior executive experience working across major companies and brands in FMCG, food, technology and communications industries including multinationals, ASX 100 and not-for-profits. Her previous roles include National Marketing Director Lion Nathan, VP Marketing for McDonald's Australia and CEO and Board Director of The Communications Council. Margaret has also served as a non-executive board director for the mental health charity R U OK? for 5 years, and is currently on the Board of Fairtrade AUNZ.

Special responsibilities: Member of the Nomination Committee (full year) and Audit and Risk Management Committee (from 22 November 2018)

Other current listed public Company Directorships: Nil

Former listed public Company Directorships in the last three years: Nil

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Julie Cogin

FAICD, PhD, M.Ed., BBus

INDEPENDENT NON-EXECUTIVE DIRECTOR

SINCE 1 SEPTEMBER 2017

Julie Cogin was appointed as Non-Executive Director on 1 September 2017. Julie is the Dean & Head of UQ Business School, University of Queensland. Prior to this position, Julie held numerous senior leadership roles at the University of New South Wales. Julie is a recognised thought leader in high performing workplaces, leadership and corporate culture, having authored several books and published in the world's top academic journals. As an educator she has received national and international teaching awards and spoken extensively about disruption in education. Julie has over 25 years' experience leading education & consulting engagements for many leading companies throughout Australia, Asia and in the USA. In 2016 Julie was named a one of Australia's 100 women of influence for her work to address the gender leadership imbalance.

Special responsibilities: Member of the Nomination Committee and People and Culture Committee

Other current listed public Company Directorships: Nil

Former listed public Company Directorships in the last three years: Nil

Chief Executive Officer

Gary Carroll was appointed as Managing Director and Chief Executive Officer on 1 January 2017. He is responsible for managing the external and internal operations of the Group and providing consistent high level advice to the Board on operations, policy and planning. Gary has over 15 years' experience in senior leadership roles covering a number of industries.

Company Secretary

Tracey Wood was appointed as Company Secretary and General Counsel on 28 May 2018. She is responsible for the Legal, Risk Management, Insurance and Company Secretarial functions for the Group.

The prior General Counsel, Sarah Zeljko, was Company Secretary from the commencement of the financial year until 24 April 2018 and Sharyn Williams (CFO) was Company Secretary for the period 24 April 2018 to 28 May 2018.

Principal activities

The principal continuing activities of the Group during the year were:

- Operation of early education centres owned by the Group; and
- Ownership of early education centre franchises.

There has been no significant change to the Group's activities during the financial year ended 31 December 2018.

Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects are set out in the Chairman's and Managing Director's Reports.

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Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the year were as follows:

- Acquired additional child care centres in Australia
- Trade volume restrictions applicable to shares held by CIPI ceased to apply from close of trade on 4 June 2018
- Change of Share Registry to Link Market Services effective 3 September 2018
- AUD$450 million senior secured syndicated bank facility executed on 23 October 2018
- AUD$100 million junior secured syndicated bank facility executed on 11 December 2018

Matters subsequent to the end of the financial year

The following material matters have taken place subsequent to year end:

- 52,333 performance rights were issued on 30 January 2019 pursuant to the G8 Executive Incentive Plan.
- 23,550 performance rights were cancelled on 22 February 2019 pursuant to the G8 Executive Incentive Plan.
- The Board declared a 8.0c fully franked dividend at the Board meeting which will be the final dividend for the year.
- Post 31 December 2018, the Group completed the acquisition of 3 centres for $4.7m and opened 6 centres that were acquired late in 2018. The initial accounting in respect of the acquisitions has not yet been completed as completion accounts have yet to be finalised.

Likely developments and expected results of operations

The Group will continue to pursue its objectives of increasing the profitability and the market share of its child care business during the next financial year. This will be achieved through organic and acquisition led growth.

Rounding Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191, relating to the "rounding off" of amounts in the financial reports. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

DIVIDENDS

Dividends declared or paid during the financial year were as follows:	**2018 $'000**	**2017 $'000**
No quarterly dividend for 2018. (2017: Dividend for the quarter ended 31 March 2017 of 6.0 cents per share paid on 7 April 2017)	-	24,117
Dividend for the full financial year ended 31 December 2017 of 10.0 cents per share paid on 23 March 2018. (2017: Dividend for the quarter ended 30 June 2017 of 6.0 cents per share paid on 7 July 2017)	44,853	26,599
No quarterly dividend for 2018. (2017: Dividend for the quarter ended 30 September 2017 of 6.0 cents per share paid on 6 October 2017)	-	26,741
Dividend for the half year ended 30 June 2018 of 4.5 cents per share paid on 5 October 2018. (2017: No quarterly dividend declared for the period ended 31 December 2017)	20,406	-
TOTAL	**65,259**	**77,457**

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MEETING OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2018, and the number of meetings attended by each Director were:

	Full meetings of Directors		Audit and Risk Management Committee		Nomination Committee		People and Culture Committee	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
M Johnson	12	12	4	4	4	4	4	4
B Bailison	12	12	4	4	4	4	-	-
S Forrester	12	12	-	-	4	4	4	4
D Foster	12	12	4	4	4	4	-	-
M Zabel*	12	12	1	1	4	4	-	-
J Cogin	12	12	-	-	4	4	4	4
G Carroll	12	12	-	-	-	-	-	-

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the Committee during the year

* Member of Audit & Risk Committee since 22 November 2018.

ENVIRONMENTAL REGULATION

The Group is subject to and complies with environmental regulations under State Legislation in the management of its operations. The Group does not engage in activities that have particular potential for environmental harm.

No incidents have been recorded and the Directors are not aware of any environmental issues which have had, or are likely to have, a material impact on the Group's business.

INSURANCE OF OFFICERS AND AUDITORS

During the year, the Group paid a premium to insure the Directors and Officers (Managers) of the Company and its controlled entities. Under the terms of the policy the amount of the premium and the nature of the liability cannot be disclosed.

The liabilities insured include legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the Managers in their capacity as Managers of entities in the Group alleging a wrongful act, and other payments arising from liabilities incurred by the Managers in connection with such proceedings.

This does not include such liabilities that arise from conduct involving willful breach of duty of the Managers or the improper use by the Managers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group.

It is not possible to apportion the premium between the amounts relating to the insurance against legal costs and those relating to other liabilities. No insurance premiums or indemnities have been paid for or agreed by the Group for the current or former auditors.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.
Ernst & Young provide an annual declaration of their independence to the ARM Committee in accordance with the requirements of the Corporations Act 2001.

REMUNERATION REPORT AUDITED

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SECTION	TITLE	DESCRIPTION
1	Introduction from the People & Culture Chair	Sets out the activities of the People & Culture Committee and the Board and people focussed highlights.
2	Who is covered	Details the individuals whose remuneration information is disclosed, which consists of senior executives and Non-Executive Directors.
3	Remuneration Governance	Describes the role of the Board and the People and Culture Committee, and the use of remuneration consultants when making remuneration decisions.
4	KMP Executive reward	Our Strategy, Vision and Values and link to KMP Executive reward.
5	Remuneration details for 2018	Outlines the principles and strategy applied to executive remuneration decisions and the framework used to deliver rewards including the performance and remuneration linkages.
6	KMP Equity Interests	Provides details regarding shareholdings in G8 Education Limited of KMP.
7	Employment agreements	Provides details regarding the contractual arrangements between G8 Education and the executives whose remuneration details are disclosed.
8	Non-Executive Director remuneration	Provides details regarding the fees paid to Non-Executive Directors.

SCOPE

THIS REMUNERATION REPORT SETS OUT, IN ACCORDANCE WITH THE RELEVANT CORPORATIONS ACT 2001 (CORPORATIONS ACT) AND ACCOUNTING STANDARD REQUIREMENTS, THE REMUNERATION ARRANGEMENTS IN PLACE FOR THE KEY MANAGEMENT PERSONNEL (KMP) DURING 2018.

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1. INTRODUCTION FROM THE PEOPLE AND CULTURE COMMITTEE CHAIR

Dear Shareholders

G8 Education has a firm belief that focussing on and investing in our people will provide sustainable benefits over the long term.

After laying strong foundations in 2017, our goal in 2018 was to ensure our executive team was fully in place which was achieved with the appointment of Jenni Marsh in June, to the role of General Manager Safety, Quality and Compliance.

Our combined Board and management review of the Strategic Plan in August 2018 focussed on our four core pillars comprising our team, quality, customer and performance.

In terms of our ongoing commitment to our people, we focussed on improving the quality of our early education centre network, improving team engagement and retention of Centre Managers and Early Childhood Teachers ("ECTs"). This is consistent with our strategy to provide both a market-leading customer and employment offer to drive occupancy and profitability of the Group, which in turn provides sustainable growth for shareholders.

The highlights from the People and Culture Committee work plan that were completed during 2018 are:

- review of our Senior Executive Remuneration Policy to include our values and alignment of KPIs to our four core pillars of team, quality, customer and performance;
- introduction of a new competency framework;
- review and monitoring of the first formal succession plan for G8 Executive Leaders;
- ongoing implementation of our comprehensive, tailored executive and senior leadership development programs;
- detailed review of the role and work routines of Centre Managers and Area Managers, to ensure alignment across the network and optimisation of effort for these key roles;
- review and re-setting of base remuneration for ECTs to improve attraction and retention; and
- the ongoing refinement of our Board Skills Matrix.

2018 saw the second full year of implementation of our Strategic Remuneration Framework and Policies.

No substantive changes to our approach to executive remuneration were made, as we were mindful of the benefit to our executives of consistency and of allowing our new scheme to run its course for a three year cycle. A remuneration benchmarking exercise was carried out for our CEO's role with changes to be effective from January 2019.

In terms of the at-risk components of our executives' remuneration, the minimum financial performance requirements of the Short-Term Incentive Plan were not met as the Group did not achieve double digit annual NPAT growth. In terms of the personal measures which comprise 10% of their STI opportunity, each member of the executive team achieved 4%. The Board decided to exercise its discretion and reward a total of 5% to each executive, in recognition of their concerted efforts during the year towards achieving our strategic targets.

The Board and the People and Culture Committee believe these annual incentive outcomes for each of our disclosed executives reflects our performance in 2018.

In early 2018, the Board conducted an independent review of Directors' fees. Non-Executive Director ("NED") fees for 2018 were adjusted to the market median for comparable listed companies based on market benchmarks and specialist independent external review. At our 2018 AGM we did not seek an increase to the Aggregate NED Fee pool and no increase to that pool is proposed in 2019.

2019 will be the final year in our 3-year remuneration framework. During the year we will monitor the effectiveness of this program and we will review with our remuneration consultant.

We note that our Board composition reflects a healthy gender balance. Women now represent 50% of our independent NEDs and 42% of the full Board including the Managing Director.

The Board and the People and Culture Committee hope you find this report informative.



Susan Forrester
Chair, People and Culture Committee
Brisbane
23 February 2019

2. WHO IS COVERED BY THE REPORT

KEY MANAGEMENT PERSONNEL

KMP HAVE AUTHORITY AND RESPONSIBILITY FOR PLANNING, DIRECTING AND CONTROLLING THE ACTIVITIES OF G8 EDUCATION AND COMPRISE THE NON-EXECUTIVE DIRECTORS AND EXECUTIVE KMP (BEING THE EXECUTIVE DIRECTORS AND OTHER SENIOR EXECUTIVES NAMED IN THIS REPORT). DETAILS OF THE KMP DURING THE YEAR ARE SET OUT IN THE TABLE BELOW.

	TITLE (AT YEAR END)/COMMITTEES	CHANGE IN 2018
Non-Executive Directors		
Mark Johnson	**Chairman**	No Change.
	Member, Audit & Risk Management	
	Member, Nomination	
	Member, People & Culture	
Brian Bailison	**Director**	No Change.
	Chair, Audit & Risk Management	
	Member, Nomination	
Susan Forrester	**Director**	No Change.
	Chair, People & Culture	
	Member, Nomination	
David Foster	**Director**	No Change.
	Chair, Nomination	
	Member, Audit & Risk Management	
Julie Cogin	**Director**	No Change.
	Member, Nomination	
	Member, People & Culture	
Margaret Zabel	**Director**	No Change.
	Member, Nomination	
	Member, Audit & Risk Management	From 22 November 2018
Executive Directors		
Gary Carroll	**CEO and Managing Director**	No Change.
Other executive KMP		
Sharyn Williams	**Chief Financial Officer**	No Change.
Jason Ball	**General Manager Operations**	No Change.

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3. REMUNERATION GOVERNANCE AT G8 EDUCATION

THIS SECTION OF THE REMUNERATION REPORT DESCRIBES THE ROLE OF THE BOARD AND THE PEOPLE AND CULTURE COMMITTEE AND THE USE OF REMUNERATION CONSULTANTS WHEN MAKING REMUNERATION DECISIONS AFFECTING KMP.

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ROLE OF THE BOARD AND THE PEOPLE AND CULTURE COMMITTEE

The Board is responsible for G8 Education's remuneration strategy and policies. Consistent with this responsibility, the Board has established the People & Culture Committee (PCC) which comprises solely independent Non-Executive Directors (NEDs).

The role of the PCC is set out in its Charter, which is reviewed annually and was last revised and approved by the Board in August 2018. In summary, the PCC's role is to:

- ensure that the appropriate procedures exist to assess the remuneration levels of the Chairman, other NEDs, Executive Directors, direct reports to the CEO, Board Committees and the Board as a whole;
- ensure that G8 Education meets the requirements of Australian Securities Exchange (ASX) diversity and other relevant Guidelines;
- ensure that G8 Education adopts, monitors and applies appropriate remuneration policies and procedures;
- ensure that reporting disclosures related to remuneration meet the Board's disclosure objectives and all relevant legal requirements;
- develop, maintain and monitor appropriate talent management programs including succession planning, recruitment, development, retention and termination policies and procedures for senior management; and
- develop, maintain and monitor appropriate superannuation arrangements for G8 Education.

The PCC's role and interaction with Board and internal and external advisors are further illustrated below:

The Board

Reviews, applies judgment and, as appropriate, approves the PCC's recommendations

The People & Culture ("PCC")

The PCC operates under the delegated authority of the Board.

The PCC is empowered to source any internal resources and obtain external independent professional advice it considers necessary to enable it to make recommendations to the Board on the following:

Remuneration policy, composition and quantum of remuneration components for executive KMP, and performance targets	Remuneration policy in respect of NEDs	Talent management policies and practices including superannuation arrangements	Design features of employee and executive STI and LTI plan awards, including setting of performance and other vesting conditions
⇕	⇕	⇕	⇕
External consultants		Internal resources	

FURTHER INFORMATION ON THE PCC'S ROLE, RESPONSIBILITIES AND MEMBERSHIP IS CONTAINED IN THE CORPORATE GOVERNANCE REPORT SET OUT IN THE CORPORATE GOVERNANCE SECTION OF THE G8 EDUCATION WEBSITE.

USE OF REMUNERATION CONSULTANTS

All proposed remuneration consultancy contracts (within the meaning of section 206K of the Corporations Act) are subject to prior approval by the Board or the PCC in accordance with the Corporations Act.

The Board directly engages external advisors to provide input to the process of reviewing executive KMP and NED remuneration.

During the 2018 financial year, Crichton and Associates Pty Limited (Crichton and Associates) were engaged by the Board to provide a remuneration benchmark assessment in relation to the CEO/Executive Director and two other executive roles. Crichton and Associates were paid $5,886.25 for these services.

The following arrangements were made to ensure that the remuneration recommendations have been made free from undue influence:

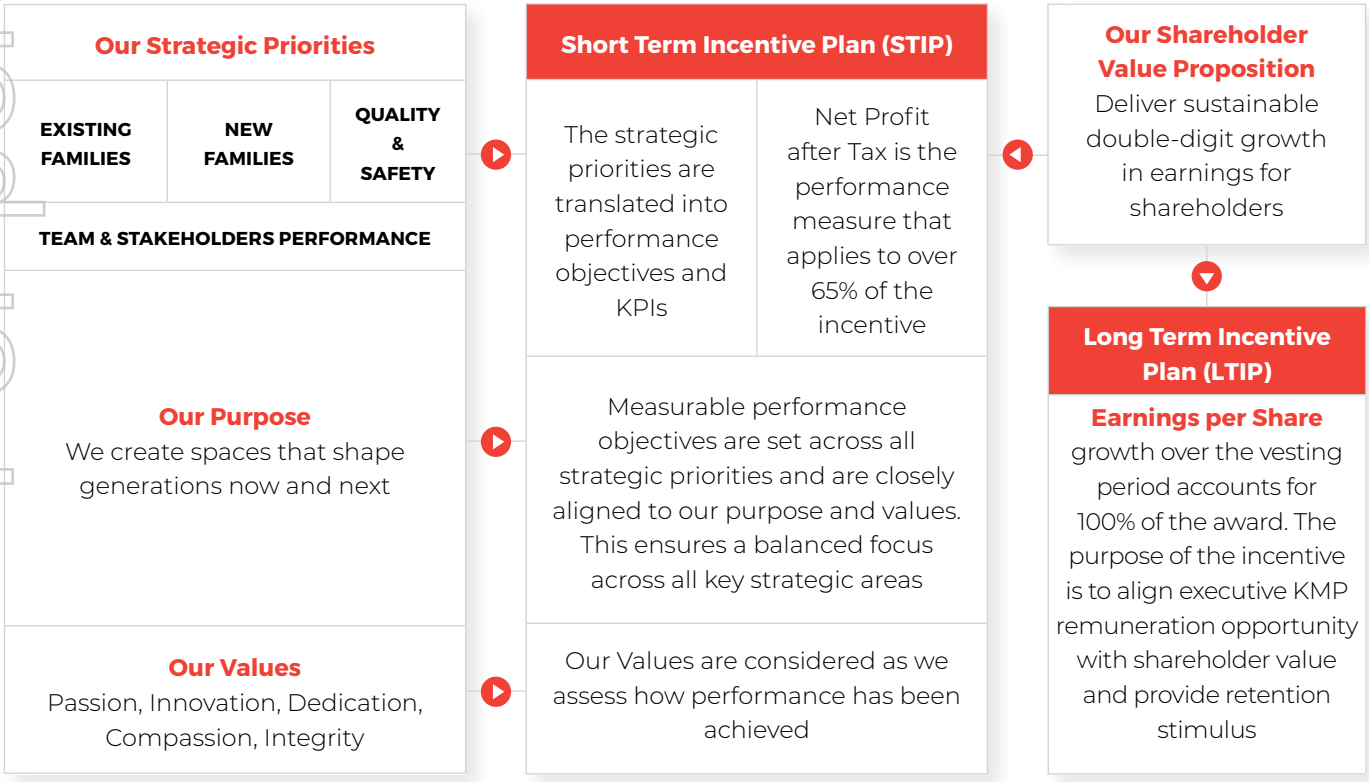
- Crichton and Associates received written instructions from an independent NED on behalf the PCC and were accountable to the Board;
- During the course of this assignment, Crichton and Associates received limited input from management. Crichton and Associates reported its findings, in writing, to the independent NED and the Board; and
- Either a standard set fee was charged, or a fixed fee arrangement was agreed in advance directly with the independent NED on behalf of the PCC.

The Board was satisfied that the limited remuneration recommendations provided were made free from undue influence from any member of the KMP. That view was formed due to the above arrangements being in place, the professional nature of the remuneration consultant's business and reputation and the absence of any reason to suggest otherwise.

In addition to providing remuneration consulting services, Crichton and Associates also provided services relating to other aspects of remuneration of the Group's employees, including ad hoc advice in respect of the Company's remuneration framework, remuneration reporting and proxy advisor engagement. Crichton and Associates was paid $4,861.35 during 2018, for these services.

4. OUR STRATEGY, VISION AND VALUES AND LINK TO KMP SENIOR EXECUTIVE REWARD

OUR EXECUTIVE KMP REMUNERATION HAS BEEN DESIGNED TO SUPPORT AND REINFORCE G8 EDUCATION'S STRATEGY, PURPOSE AND VALUES. THE AT-RISK COMPONENTS OF THE EXECUTIVE KMP REMUNERATION ARE THEREFORE CLOSELY LINKED TO THE SUCCESSFUL EXECUTION OF THE ORGANISATION'S STRATEGY.



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THE COMPONENTS OF KMP SENIOR EXECUTIVE LEADERSHIP REMUNERATION AT G8 EDUCATION

EXECUTIVE KMP REMUNERATION

G8 Education's executive remuneration policies are designed to attract, motivate and retain a qualified and experienced group of executives with complimentary skills.

Fixed remuneration components are determined having regard to the specific skills and competencies of the executive KMP with reference to both internal and external relativities, particularly local market and industry conditions.

The '**at risk**' components of remuneration are strategically directed to encourage management to strive for superior (risk balanced) performance by rewarding the achievement of targets that are challenging, clearly defined, understood and communicated within the ambit of accountability of the relevant executive KMP.

Executive KMP remuneration objectives are exemplified through three categories of remuneration, as illustrated below.

Executive KMP remuneration objectives

Attract, motivate and retain executive talent across diverse geographies	The creation of reward differentiation to drive performance values and behaviours	An appropriate balance of 'fixed' and 'at risk' components	Shareholder value creation through equity components

Total target remuneration (TTR) is set by reference to the relevant geographic market

Fixed	At risk	
Total fixed remuneration (TFR)	**Short-term incentives (STI)**	**Long-term incentives (LTI)**
TFR is set based on relevant market relativities, reflecting responsibilities, performance, qualifications, experience and geographic location	STI performance criteria are set by reference to G8 Education's group earnings and individual performance targets relevant to the specific KMP	LTI targets are linked to G8 Education EPS growth
Remuneration will be delivered as:		
Base salary plus any fixed elements related to local markets, including superannuation or equivalents	Part cash and part equity (performance rights). The equity component will be subject to service and deferred for one year	Equity in performance rights. All equity is held subject to service and performance for three years from grant date. The equity is at risk until vesting. Performance is tested once at the vesting date
Strategic intent and market positioning		
TFR will generally be positioned at the median compared to relevant market based data considering expertise and performance in the role	Performance incentive is directed to achieving Board approved targets, reflective of market circumstances. TFR + STI is intended to be positioned in the 3rd quartile of the relevant benchmark comparisons	LTI is intended to reward executive KMP for sustainable long-term growth aligned to shareholders' interests. LTI allocation values are intended to be positioned in the 3rd quartile of the relevant benchmark comparisons

Total targeted remuneration (TTR)

TTR is intended to be positioned in the 3rd quartile compared to relevant market benchmark comparisons. 4th quartile TTR may result if outperformance is achieved. The remuneration structure is designed to ensure top quartile executive KMP remuneration is only achieved if G8 Education outperforms.

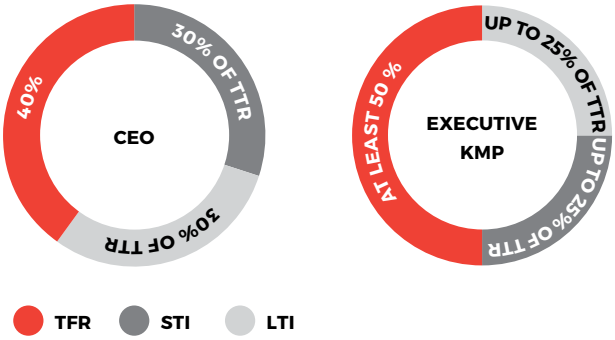
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REMUNERATION COMPOSITION MIX

G8 Education endeavours to provide an appropriate and competitive mix of remuneration components balanced between fixed and at risk and paid in both cash and deferred equity.

REMUNERATION MIX 2018

The mix of remuneration for the CEO and executive KMP for 2018 resulted in the following remuneration mix:



The "at risk" component of the (STI) and (LTI) of this mix represents the intended remuneration opportunity for these executives assuming the performance requirements set for each component are satisfied. The remuneration mix is the same in 2018 as in 2017 and ensures that remuneration is linked to performance and contains at risk components.

TOTAL TARGET REMUNERATION (TTR)

In the opinion of the Board, the TTR under the remuneration mix adopted by G8 Education delivers on overall risk adjusted reward opportunity which is intended to ensure both fair and market competitive remuneration is awarded.

TOTAL FIXED REMUNERATION (TFR)

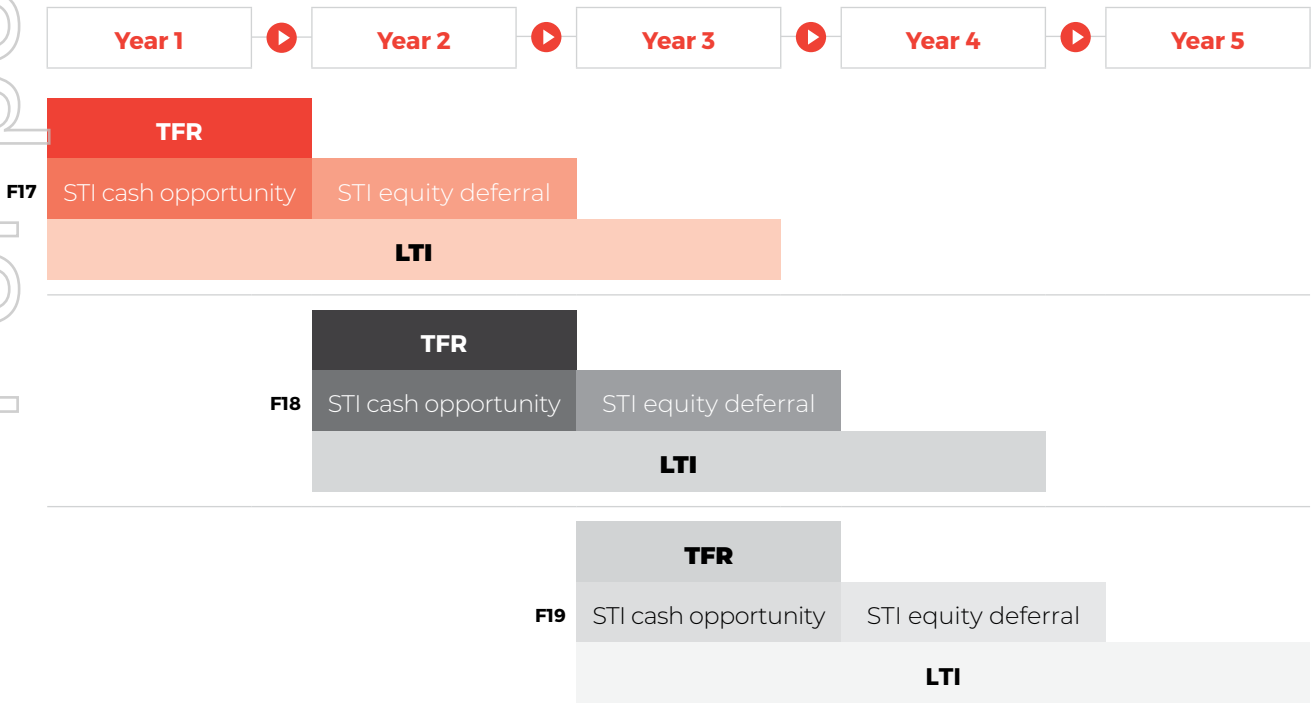
G8 Education's approach continues to position executive KMP at between the median and 62.5th percentile of the market. This positioning is confirmed regularly by reference to remuneration surveys and independent benchmark assessments from time to time. The comparator group used to benchmark executive KMP remuneration is ASX listed companies of a similar size.

A description of the 2018 short-term and long-term incentive schemes are set out below.

REMUNERATION – "AT RISK"

As illustrated, executive KMP remuneration is delivered on a cascading basis, with a material component deferred for one (STI) and three (LTI) years and awarded as equity. This remuneration mix is designed to ensure executive KMP are focused on delivering results over the short, medium and long term if they are to maximise their remuneration opportunity. The Board believes this approach will align executive KMP remuneration to shareholder interests and expectations.

The three complementary components of executive KMP remuneration are 'earned' over multiple time ranges. This is illustrated in the following chart:



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TOTAL FIXED REMUNERATION EXPLAINED

Total fixed remuneration (TFR) includes all remuneration and benefits paid to an executive KMP calculated on a total employment cost basis. In addition to base salary, superannuation and other allowances are included.

Executive KMP TFR is tested regularly for market competitiveness by reference to appropriate independent and externally sourced comparable benchmark information, including for comparable ASX listed companies, and based on a range of size criteria including market capitalisation, taking into account an executive's responsibilities, performance, qualifications, experience and location.

TFR adjustments, if any, are made with reference to individual performance, an increase in job role or responsibility, changing market circumstances as reflected through independent benchmark assessments or through promotion.

Any adjustments to executive KMP remuneration are approved by the Board, based on PCC and CEO recommendations.

VARIABLE (AT RISK) REMUNERATION EXPLAINED

Variable remuneration is intended to form a significant portion of the CEO and other executive KMP remuneration opportunity. Apart from being market competitive, the purpose of variable remuneration is to encourage executives' behaviours towards maximising G8 Education's short, medium and long-term performance.

The key aspects are summarised below.

SHORT-TERM INCENTIVES (STI)

Purpose	The STI arrangements at G8 Education are designed to reward executives for the achievement against annual performance targets set by the Board at the beginning of the performance period. The STI program is reviewed annually by the PCC and approved by the Board. All STI awards to the CEO and other executive KMP are approved by the PCC and Board.
Performance targets	The key performance objectives of G8 Education are currently directed to achieving Board approved earnings targets and by the achievement of individual performance KPIs. The intention is that not more than 20% is awarded if the Board approved budget is not reached. In respect of the individual KPIs, in 2018 they were split into four areas – Team (2), Quality (3), Performance (1) and Customer (2). For 2019 there are six individual KPIs split into three areas – Team (2), Quality (2) and Customer (2). The change was made in 2019 to avoid duplication in relation to performance KPIs as these were already captured in the STI calculation. Any anomalies or discretionary elements are approved and validated by the Board. An individual's STI cannot be higher than 20% if the Group financial target is not met.
Rewarding performance	The STI performance ratings are determined under a predetermined matrix with the Board determination final.
Deferral of STI	Effective from 1 January 2017 deferral of a portion of STI was introduced to reinforce alignment with shareholder interests. Grants will be determined at the end of each year and then held for one year until vesting. This achieves additional retention and alignment of executives with shareholder interests. The deferred STI component for the 2018 and 2019 financial periods will be calculated based on 50% of the STI amount, above a minimum threshold of $100,000. The equity component will be independently determined based on the gross contract value using G8 Education's five-day volume weighted average price (VWAP) following the announcement of year end results in February 2019. That is, based on a Black-Scholes-Merton pricing model without discounting for service or performance hurdles. The deferred component is granted as service rights. Once the STI awarded as service rights has been granted, there are no further performance measures attached to the rights other than continued tenure for the vesting period (one year).

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LONG-TERM INCENTIVES (LTI)

THE LTI PROVIDES AN ANNUAL OPPORTUNITY FOR EXECUTIVE KMP AND OTHER SELECTED EXECUTIVES (BASED ON THEIR ABILITY TO INFLUENCE AND EXECUTE STRATEGY) TO RECEIVE AN EQUITY AWARD DEFERRED FOR THREE YEARS, THAT IS INTENDED TO ALIGN A SIGNIFICANT PORTION OF EXECUTIVES' OVERALL REMUNERATION TO SHAREHOLDER VALUE OVER THE LONGER TERM. ALL LTI AWARDS REMAIN AT RISK AND SUBJECT TO 'CLAW BACK' (FORFEITURE OR LAPSE) UNTIL VESTING AND MUST MEET OR EXCEED EPS GROWTH RATES OVER THE VESTING PERIOD.

Purpose	To align executive KMP remuneration opportunity with shareholder value and provide retention stimulus.
Types of equity awarded	LTI is provided under the G8 Education Executive Incentive Plan. See the section below for further details. Under the G8 Education Employee Incentive Plan, selected senior executives are offered performance rights (being a nil exercise price right to fully paid ordinary shares of G8 Education Limited), subject to satisfying the relevant requirements.
Time of grant	All equity grants will be made after the AGM each year but based on values determined in February.
Time restrictions	Equity grants awarded to the executive KMP and other executives are tested against the performance hurdles set, at the end of three years. If the performance hurdles are not met at the vesting date, performance rights lapse.
Performance hurdles and vesting schedule	Equity grants to executive KMP and other executives are subject to one performance condition, as follows: Compound annual growth in Reported EPS (three years). The hurdles are set. Both were based on relevant market benchmarks.

Compound annual growth in Reported EPS (3 years)	
Performance p.a.	% of equity to vest
< 10%	0%
10% to 15%	50% to 100% pro-rata
> 15%	100%

Performance rights vest if the time restrictions and relevant performance hurdles are met. The Board must approve any special provisions, in accordance with Company policies, in the event of termination of employment or a change of control.

Dividends	No dividends are attached to performance rights.
Voting rights	There are no voting rights attached to performance rights.
Retesting	There is no retesting of performance hurdles under G8 Education LTI.
LTI allocation	The size of individual LTI grants for the executive KMP and other executives is determined in accordance with the Board approved remuneration strategy mix. The allocation methodology for performance rights is to determine the target LTI dollar value for each executive and divide it by the gross contract value based on a Black-Scholes-Merton pricing model without discounting for service or performance hurdles.

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G8 EDUCATION EXECUTIVE INCENTIVE PLAN (GEIP)

Equity granted under the short term and long term incentive schemes is granted by way of performance or service rights issued in accordance with the GEIP. Shareholders approved the GEIP at the AGM in May 2017. The Company has established the GEIP to assist the retention and motivation of executives of G8 Education (Participants). It is intended that the Performance Rights will enable the Company to retain and attract the skilled and experienced executives and provide them with the motivation to enhance the success of the Company.

Rights may be offered to Participants selected by the Board. Unless otherwise determined by the Board, no payment is required for the grant of rights under the GEIP. Each right is an option to subscribe for one share. Upon the exercise of a right by a Participant, each share issued will rank equally with other Shares of the Company.

OTHER REMUNERATION ELEMENTS AND DISCLOSURES RELEVANT TO EXECUTIVE KMP

CLAW BACK

The Board has discretion to claw back incentive payments where material misconduct is evident. The Claw Back Policy is available on the G8 Education website.

HEDGING AND MARGIN LENDING PROHIBITION

Under the G8 Education Securities Trading Policy and in accordance with the Corporations Act, equity granted under G8 Education equity incentive schemes must remain at risk until vested, or until exercised if performance rights. It is a specific condition of grant that no schemes are entered into, by an individual or their associates that specifically protect the unvested value of performance rights allocated.

G8 Education also prohibits the CEO or other 'Designated Persons' (including executive KMP) providing G8 Education securities in connection with any margin loan or similar financing arrangement unless that person has received a specific notice of no objection in compliance with the policy from the Board.

G8 Education, in line with good corporate governance, has a formal policy setting down how and when employees of G8 Education may deal in G8 Education securities.

G8 Education's Securities Trading Policy is available on the G8 Education website under Investor Centre, Corporate Governance.

5. REMUNERATION DETAILS FOR 2018

ACTUAL REMUNERATION RECEIVED IN 2018

2018 SHORT TERM INCENTIVE PLAN OUTCOMES – PROFIT

The profit targets in the 2018 Short Term Incentive Plan were aligned to our shareholder value proposition providing sustainable double-digit earnings growth for shareholders.

These profit targets form 90% of the total STI for 2018 for the CEO/Executive Director and 85% for all other Executive KMP.

The minimum financial performance requirements of the Short-Term Incentive Plan were not met as the Company fell short of the target earnings growth set by the Board. Accordingly, the profit component of the STI was not awarded to any Executive KMP.

2018 SHORT TERM INCENTIVE PLAN OUTCOMES – INDIVIDUAL OBJECTIVES

The remaining 10% for the CEO/Managing Director and 15% for the other Executive KMP was determined based on the achievement of agreed annual objectives, which as described earlier are a mix of quantitative and qualitative objectives. These annual objectives for KMP Senior Executives are intended to ensure continued focus on strategic priorities and to raise the bar on performance year on year.

At the outset of 2018, clear performance objectives were set for the Executive KMP that were critical to the delivery of the 2018 plan and fundamental to the success of the long-term strategy while addressing the ongoing challenges of our competitive operating environment.

The overall assessment of Executive KMP took into account performance against the achievement of individual objectives and how the performance was achieved (i.e. through demonstrating good leadership aligned to our values) which ensures a holistic and full assessment of performance.

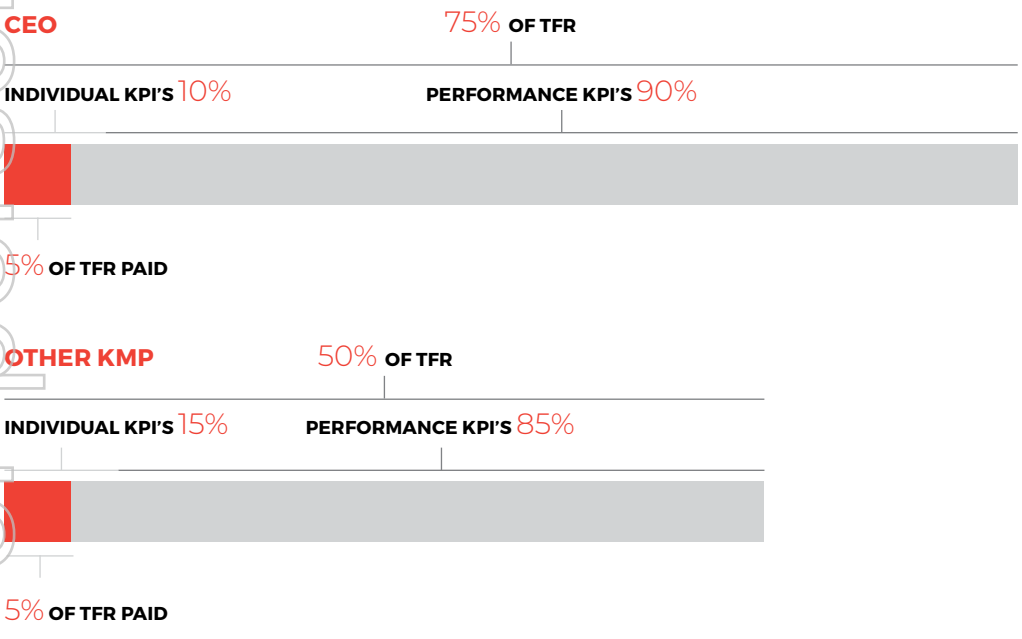
Detailed assessments were prepared by the Managing Director and discussed with the People and Culture Committee. The Board and the People and Culture Committee believe that the performance in 2018 has been appropriately reflected in the Short Term Incentive Plan outcomes.

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THE TABLE BELOW SUMMARISES THE 2018 RESULTS FOR EXECUTIVE KMP AGAINST THE INDIVIDUAL KPI'S.

KPI'S	AREA OF FOCUS	ACHIEVEMENTS CONSISTENT WITH SHAREHOLDER VALUE PROPOSITION
Team	Turnover	Not achieved, with turnover results for both centre-based and support office team members, while improved from 2017 levels, not being in line with targeted levels
Safety	Team Safety	Achieved, with delivery of Group Safety Plan being in line with target
	Child Safety	Achieved, with delivery of Group Child Safety Plan being in line with target
Performance	Strategic Plan	90% of Group Strategic Plan milestones, both in terms of timing and benefits – achieved, with projects being implemented on schedule and project-related benefits being achieved.
	Earnings Performance	Not achieved, with NPAT being behind budget
Customer	Improvement in customer service	Customer NPS – not achieved, with 2018 NPS result, while being slightly above 2017 levels, falling below the target of 55%

THE DIAGRAM BELOW SUMMARISES THE SHORT TERM INCENTIVE POTENTIAL THAT COULD BE EARNED BY THE CEO AND OTHER KMP, THE ALLOCATED WEIGHTING OF PERFORMANCE VS INDIVIDUAL KPIS, ALONG WITH THE PERFORMANCE AND RESULTING OUTCOMES. THERE WERE DIFFERENTIATED OUTCOMES BOTH IN TERMS OF THE PROFIT COMPONENT AND THE ACHIEVEMENT OF INDIVIDUAL BUSINESS OBJECTIVES.



During the year, the Group successfully refinanced its bank debt facilities by finalising a $500 million syndicated bank debt facility, thereby extending the tenor of its borrowings while also lowering its funding costs. In addition, all greenfield development contracts were reviewed and re-negotiated, achieving significant cost savings and reductions in risk.

On the basis of the KPI results and additional activities noted above, the Board determined to award a short-term incentive to the Executive KMP for the 2018 year of 5% of total fixed remuneration, which for the CEO equals $38,014.

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REMUNERATION RECEIVED BY KMP SENIOR EXECUTIVES

The following table sets out the value of the remuneration received by KMP Senior Executives during the year. The figures in this table differ from those shown in the statutory table later in Section 5 mainly because the statutory table includes an apportioned accounting value for all unvested Long Term Incentive Plan grants (which remain subject to the satisfaction of performance and service conditions and may not ultimately vest).

The values disclosed in the below table, while not in accordance with the accounting standards, are intended to be helpful for shareholders in better demonstrating the linkages between performance and the remuneration realised by the KMP Senior Executives.

THE TABLE BELOW SHOWS:

- Fixed remuneration
- Short Term Incentive
- Any vesting of Long Term Incentive Plan awards
- Termination Payments

Amount $	Fixed Remuneration (1)	STI (2)	LTI vested (3)	Termination payments	Total actual remuneration earned
G Carroll	760,290	145,000	-	-	905,290
S Williams	445,290	54,667	-	-	499,957
J Ball	425,290	19,250	-	-	444,540

1) Base Salary, superannuation and non-monetary benefits such as motor vehicle and travel
2) STI paid during the 2018 financial year in respect of 2017 performance
3) Intrinsic value of LTI that vested during the financial year

RELATIONSHIP BETWEEN G8 EDUCATION PERFORMANCE AND EXECUTIVE KMP REMUNERATION

THE PERFORMANCE OF THE GROUP AND REMUNERATION PAID TO KMP OVER THE LAST 5 YEARS IS SUMMARISED IN THE TABLE BELOW.

	2014	2015	2016	2017	2018
	$'000	$'000	$'000	$'000	$'000
Total revenue	491,288	706,164	778,513	796,806	858,173
EBIT	105,965	160,423	160,691	150,878	132,184
Net Profit After Tax	52,731	88,581	80,265	80,581	71,831
Underlying EBIT (unaudited, Non IFRS)^	100,248	145,438	160,660	156,034	136,261
Underlying NPAT (unaudited, Non IFRS)^^	60,613	87,131	93,342	92,874	79,417
Underlying EPS (cents)	18.57	23.87	24.68	21.80	17.54
Average annual dividend per share (cents)	19.0	24.0	24.0	18.0	14.0
Share price as at 31 December ($)	4.17	3.57	3.59	3.45	2.83
Total Fixed Remuneration executive KMP	1,593	2,163	2,297	1,816	1,712

^Underlying EBIT equals NPBT plus finance costs plus non-operating costs as per page 21

^^ Underlying NPAT equals NPAT plus non-operating costs as per page 21

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	Year	Fixed Remuneration			
		Short-term			Post employment costs
Amount $		TFR	STI	Dividends from Share Plan	Superannuation benefits
KMP					
G Carroll	2018	740,000	38,014	-	20,290
	2017	725,000	145,000	-	18,188
S Williams ^	2018	425,000	22,264	-	20,290
	2017	368,448	54,666	-	19,832
J Ball ^^	2018	405,000	21,264	-	20,290
	2017	199,904	19,250	-	10,024
Former KMP					
C Scott^^^	2017	364,207	-	80,000	6,824
T King^^^^	2017	95,462	-	-	8,675
Total	**2018**	1,570,000	81,542	-	60,870
Total	**2017**	1,753,021	218,916	80,000	63,543

^ S Williams commenced 6 February 2017 ^^ J Ball commenced 26 June 2017 ^^^ C Scott resigned 29 May 2017 ^^^^ T King resigned 12 April 2017

The Total Fixed Remuneration of KMP is reviewed annually as part of the overall remuneration framework review. Based upon CPI Index and independent benchmark assessment data, the Board approved an increase to the CEO base salary for 2018 of 2%, a 3.7% increase to the CFO base salary and a 5.2% increase to the General Manager Operations base salary effective from 1 January 2018.

When Gary Carroll was appointed as Chief Executive Officer on 1 January 2017 his base salary remuneration was in the first quartile of the relevant benchmark at the time given it was his first CEO appointment. In late 2018 an updated independent benchmarking assessment was conducted in respect of the Executive Director/ Chief Executive Officer position, taking into account Gary's experience and performance having been in the role for 2 years. Effective from 1 January 2019, the CEO base salary was increased by 10.4% to $840,000 (including superannuation) to be in line with market median for comparable listed companies. The comparator group consists of listed companies of similar scale and complexity.

6. KMP EQUITY INTERESTS

THE TABLES BELOW SET OUT THE EQUITY INTERESTS HELD BY NON-EXECUTIVE DIRECTORS ("NEDS") AND EXECUTIVE KMP.

Shares	Ownership type	Balance at the start of the year	Other changes during the year	Balance at the end of the year
Directors of G8 Education Limited				
Ordinary Shares				
M Johnson	Directly	30,000	30,000	60,000
B Bailison	Directly	13,000	12,000	25,000
S Forrester	Directly	39,528	12,441	51,969
D Foster	Directly	14,587	8,389	22,976
G Carroll	Directly	100,000	10,000	110,000
M Zabel	Directly	-	15,000	15,000
J Cogin	Directly	-	19,000	19,000
KMP of G8 Education Limited				
Ordinary Shares				
S Williams	Directly	12,500	12,500	25,000
J Ball	Directly	-	-	-

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					Proportion of total remuneration	
			Performance Rights	Total	Performance Rights	Share Plan related
	Termination payment	Total	Share based payment		%	%
	-	798,304	-	798,304	5%	-
	-	888,188	77,611	965,799	23%	8%
	-	467,554	-	467,554	5%	-
	-	442,946	19,426	462,372	16%	4%
	-	446,554	-	446,554	5%	-
	-	229,178	-	229,178	8%	-
	282,934	733,965	(85,889)	648,076	(13%)	(13%)
	149,428	253,565	-	253,565	-	-
	-	1,712,412		1,712,412		
	432,362	2,547,842	11,148	2,558,990		

THE MOVEMENT DURING THE REPORTING PERIOD IN THE NUMBER OF PERFORMANCE RIGHTS OVER ORDINARY SHARES IN THE COMPANY HELD DIRECTLY OR BENEFICIALLY, BY EACH KMP, INCLUDING THEIR RELATED PARTIES IS AS TABLED BELOW.

	Tranche	Grant Date	Fair Value at Grant Date	Balance at the start of the year	Granted during the year	Balance at the end of the year	Value of Performance Rights granted in year ^	Financial year in which grant vests
	Number	Date	$	Number	Number	Number	$	Year
G Carroll	2018 Perf. Rights	20-July 18	2.39	-	198,847	198,847	475,244	2021
	2017 Perf. Rights	20-July 17	3.19	142,249	-	142,249	453,774	2020
TOTAL				142,249	198,847	341,096	929,018	
S Williams	2018 Perf. Rights	20-July 18	2.39	-	77,623	77,623	185,519	2021
	2017 Perf. Rights	6-Oct 17	3.70	53,629	-	53,629	198,427	2020
TOTAL				53,629	77,623	131,252	383,946	
J Ball	2018 Perf. Rights	20-July 18	2.39	-	74,135	74,135	177,183	2021
	2017 Perf. Rights	22-Jan 18	3.42	-	50,359	50,359	172,227	2020
TOTAL				-	124,494	124,494	349,410	
TOTAL				**195,878**	**400,964**	**596,842**	**1,662,374**	

^ The Performance Rights are expensed over a three year period in line with the vesting conditions of the Performance Rights (refer Note 29). Plan participants may not enter into any transaction designed to remove the at-risk aspect of the Performance Rights before they vest. The value at the exercise date for Performance Rights is the Group share price.

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7. EMPLOYMENT AGREEMENTS (AUDITED)

THE CEO AND OTHER EXECUTIVE KMP OPERATE UNDER EMPLOYMENT AGREEMENTS.

THE FOLLOWING SETS OUT DETAILS OF THE EMPLOYMENT AGREEMENTS RELATING TO THE CEO AND OTHER EXECUTIVE KMP. THE TERMS FOR THE CEO AND ALL OTHER EXECUTIVE KMP ARE SIMILAR BUT DO, ON OCCASION, VARY TO SUIT DIFFERENT NEEDS.

Length of contract	The CEO and other executive KMP are on permanent contracts, which is an ongoing employment contract until notice is given by either party.
Notice periods	In order to terminate the employment arrangements, the CEO is required to provide G8 Education with twelve months' written notice.* Other executive KMP are required to provide G8 Education six months' written notice.
Resignation	On resignation, unless the Board determines otherwise: all unvested STI or LTI benefits are forfeited.
Termination on notice by G8 Education	G8 Education may terminate employment of the CEO by providing twelve months' written notice.* For other executive KMP, the notice period is six months' written notice. The Company may make payment, based on total fixed remuneration, in lieu of the notice period.
Death or total and permanent disability	On death or total and permanent disability, the Board has discretion to allow all unvested STI and LTI benefits to vest.
Termination for serious misconduct	G8 Education may immediately terminate employment at any time in the case of serious misconduct, and other executive KMP will only be entitled to payment of TFR up to the date of termination. On termination without notice by G8 Education in the event of serious misconduct: • all unvested STI or LTI benefits will be forfeited; and • any ESS instruments provided to the employee on vesting of STI or LTI awards that are held in trust will be forfeited.
Statutory entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Post-employment restraints	The CEO is subject to post-employment restraints of up to 24 months. All other executive KMP are subject to post-employment restraints for up to 12 months.

*In February 2019 the CEO's Employment Agreement was amended to increase the termination notice period to be provided by the CEO and by G8 Education to the CEO from six to twelve months.

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8. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

NED remuneration

Principle	Comment
Fees are set by reference to key considerations	Fees for NEDs are based on the nature of the NEDs' work and their responsibilities. The remuneration rates reflect the complexity of G8 Education's business and the extent of the number of geographical locations in which G8 Education operates. In determining the level of fees, survey data on comparable companies is considered. NEDs' fees are recommended by the PCC and determined by the Board. Shareholders approve the aggregate amount available for the remuneration of NEDs. From 1 January 2018, following independent benchmarking undertaken in November 2017, the NED remuneration was amended as follows: • the Board Chairman fee was increased to $285,000 (including superannuation); • the NED fee was increased to $140,000 (including superannuation); • the Committee Chair fee for the Nomination and People & Culture Committees was increased to $25,000 (including superannuation); and • all Committee member fees were reduced to nil.
Remuneration is structured to preserve independence whilst creating alignment	To preserve independence and impartiality, NEDs are not entitled to any form of incentive payments including options and the level of their fees is not set with reference to any measure of G8 Education performance. However, to create alignment between directors and shareholders, the Board has adopted guidelines that request NEDs to hold (or have a benefit in) shares in G8 Education equivalent in value to at least one year's base fees. G8 Education does not offer loans to NEDs to fund share ownership.
Aggregate Board and committee fees are approved by shareholders	The total amount of fees paid to NEDs in 2018 is within the aggregate amount approved by shareholders at the AGM in May 2017 of $1,100,000 per annum including superannuation. At the time of the 2017 AGM, it was the Board's intention not to exceed $1 million in NED payments in 2017 and 2018. Following benchmarking of NED fees in early 2018, changes were made to the NED fees as set out in this report. Due to those changes the total NED fees payable in 2018 exceeded $1 million by approximately $50,000. No increase to the NED fee pool is being sought at the 2019 AGM.

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NED FEES AND OTHER BENEFITS EXPLAINED

Elements	Details	2018* $	2017* $
Board fees per annum	Board Chairman fee	285,000	246,375
	Board NED Base fee	140,000	120,450
Committee fees per annum	Audit & Risk Chair fee	25,000	27,375
	Nomination Chair fee	25,000	18,615
	People and Culture Chair fee	25,000	18,615
	Audit & Risk Member fee	No fee	10,950
	Nomination Member fee	No fee	No fee
	People and Culture Member fee	No fee	9,855

* fees include superannuation

Post-employment benefits	
Superannuation	Superannuation contributions have been made at a rate of 9.5% of the Board fee which satisfies the Company's statutory superannuation contributions. The contribution rate will increase in future years in line with mandated legislative increases. However, the base fees for 2017 above are exclusive of superannuation. Contributions will be limited to the Australian Government's prescribed maximum contributions limit.
Retirement schemes	There are no retirement schemes in place for NEDs other than Statutory Superannuation.
Other benefits	
Equity instruments	NEDs do not receive any performance related remuneration, options, performance rights or shares.
Other fees/benefits	NEDs receive reimbursement for costs directly related to G8 Education business. No payments were made to NEDs during 2018 for travel allowances, extra services or special exertions, other than a payment $25,000 to Margaret Zabel in respect of marketing consultancy services provided during 2018.

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NED TOTAL REMUNERATION PAID

	Year	Fees $	Superannuation benefits $	Total $
M Johnson (Chairman)	2018	256,544	20,290	276,834
	2017	225,000	21,375	246,375
B Bailison	2018	150,685	14,315	165,000
	2017	135,000	12,825	147,825
S Forrester	2018	150,685	14,315	165,000
	2017	127,000	12,065	139,065
D Foster	2018	150,685	14,315	165,000
	2017	129,423	12,295	141,718
M Zabel	2018	127,854	12,146	140,000
(appointed 1 September 2017)	2017	36,385	3,457	39,842
J Cogin	2018	127,854	12,146	140,000
(appointed 1 September 2017)	2017	39,362	3,739	43,101
M Reynolds	2018	-	-	-
(resigned 31 August 2017)	2017	79,638	7,827	87,465
Total	**2018**	**964,307**	**87,527**	**1,051,834**
Total	**2017**	**771,808**	**73,583**	**845,391**

During 2018, following an independent benchmark assessment NED fees were increased by 14% (on average). The increase brought NED fees to be in line with the median of the selected ASX comparator group

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MINIMUM SHAREHOLDING GUIDELINES

The Board has approved minimum shareholding guidelines for NEDs, the CEO and executive KMP. Under these guidelines, all NEDs are requested to accumulate a minimum shareholding in G8 Education shares equivalent in value to one year's base fees and all executive KMP are requested to accumulate a minimum shareholding in G8 Education shares equivalent to one year's fixed remuneration. The Board believes that this requirement will ensure alignment with shareholders' interests.

The guidelines were implemented in January 2017, with NEDs and executive KMP required to accumulate the required holding over the next 5 years or from appointment.

DIRECTOR'S TENURE

The Directors shall retire from office in accordance with the Constitution of G8 Education Limited and/or the applicable sections of the Corporations Act. The Board has a policy that in general the maximum term of service for a NED should be approximately ten years. However, this term may be extended for reasons such as Board or Committee chairmanship, providing continuity or a particular capability of a Non-executive Director.

CORPORATE GOVERNANCE

G8 Education Limited is strongly committed to good corporate governance practices and substantially complies with the ASX Corporate Governance Council's (CGC) Corporate Governance Principles and Recommendations (Third Edition). The Board of directors guides and monitors the business and affairs of G8 Education Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. G8 Education Limited's compliance with the Principles are found in the corporate governance section of our website: www.g8education.edu.au/investor-information/corporate-goverance.

NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

During 2018, G8 Education engaged Ernst & Young to perform non-audit services relating to other audit advice. The Board has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied the provision of non-audit services by the auditor, as set out in note 30, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics of Professional Accountants.

AUDITORS INDEPENDENCE DECLARATION

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 47.

AUDITOR

Ernst & Young were appointed as auditor on 25 May 2016 and continue in office in accordance with section 237 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors.



Gary Carroll
Managing Director
23 February 2019

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Building a better working world

Auditor's Independence Declaration to the Directors of G8 Education Limited

As lead auditor for the audit of G8 Education Limited for the financial year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of G8 Education Limited and the entities it controlled during the financial year.

Ernst & Young

Ric Roach
Partner
23 February 2019

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FINANCIAL REPORT

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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000
Continuing operations			
Revenue	2	851,530	789,043
Other income	3	6,643	7,763
Total revenue		**858,173**	**796,806**
Expenses			
Employment costs	4	(507,105)	(445,841)
Occupancy		(108,915)	(97,846)
Direct costs of providing services		(61,622)	(58,568)
Depreciation	4	(16,483)	(13,959)
Other expenses		(31,449)	(28,667)
Finance costs	4	(28,973)	(34,144)
Total expenses		**(754,547)**	**(679,025)**
Profit before income tax		**103,626**	**117,781**
Income tax expense	5	(31,795)	(37,200)
Profit for the year attributable to members of the parent entity		**71,831**	**80,581**
		Cents	**Cents**
Basic earnings per share	6	15.87	18.92
Diluted earnings per share	6	15.87	18.91

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Consolidated 2018 $'000	Consolidated 2017 $'000
Profit for the year	**71,831**	**80,581**
Other comprehensive income, net of income tax		
Items that are or may be reclassified to the consolidated income statement:		
Exchange differences on translation of foreign operations	2,778	(23)
Effective portion of changes in fair value of cash flow hedges	1,626	1,921
Total other comprehensive income	**4,404**	**1,898**
Total comprehensive income for the year	**76,235**	**82,479**

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

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CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	16	55,521	49,209
Trade and other receivables	7	36,502	30,366
Other current assets	8	14,120	12,361
Derivative financial instruments	18	10,837	-
Current tax asset		-	250
Total current assets		**116,980**	**92,186**
Non-current assets			
Property plant and equipment	9	91,710	63,906
Deferred tax assets	5	17,856	16,220
Intangible assets	14	1,134,456	1,087,969
Other non-current assets	8	25,547	32,273
Derivative financial instruments	18	-	622
Total non-current assets		**1,269,569**	**1,200,990**
Total assets		**1,386,549**	**1,293,176**
LIABILITIES			
Current liabilities			
Trade and other payables	10	67,911	65,902
Contract liabilities		8,517	9,155
Current tax liability		700	-
Borrowings	17	279,566	49,905
Provisions	11	29,988	26,096
Total current liabilities		**386,682**	**151,058**
Non-current liabilities			
Other payables	10	5,260	1,067
Borrowings	17	92,188	253,589
Provisions	11	8,935	8,321
Derivative financial instruments	18	-	13,806
Total non-current liabilities		**106,383**	**276,783**
Total liabilities		**493,065**	**427,841**
Net assets		**893,484**	**865,335**
EQUITY			
Contributed equity	19	893,567	876,394
Reserves		56,530	44,552
Retained earnings		(56,613)	(55,611)
Total equity		**893,484**	**865,335**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Consolidated	Notes	Contributed Equity $'000	Hedging Reserve $'000	Cost of Hedging Reserve $'000	Translation Reserve $'000	Share Based Payment Reserve $'000	Profits Reserve $'000	Retained Earnings $'000	Total $'000
Balance 1 January 2017		**641,848**	**(1,042)**	**-**	**5,571**	**239**	**30,881**	**(51,622)**	**625,875**
Profit for the year		-	-	-	-	-	84,570	(3,989)	80,581
Other comprehensive income (net of tax)		-	1,921	-	(23)	-	-	-	1,898
Total comprehensive income for the year		-	**1,921**	-	**(23)**	-	**84,570**	**(3,989)**	**82,479**
Transactions with owners in their capacity as owners									
Contributions of equity, net of transaction cost	19	234,546	-	-	-	-	-	-	234,546
Share based payment expense	29	-	-	-	-	(108)	-	-	(108)
Dividends provided for or paid	20	-	-	-	-	-	(77,457)	-	(77,457)
Total		**234,546**	**-**	**-**	**-**	**(108)**	**(77,457)**	**-**	**156,981**
Balance 31 December 2017		**876,394**	**879**	**-**	**5,548**	**131**	**37,994**	**(55,611)**	**865,335**
Balance 1 January 2018		**876,394**	**879**	**-**	**5,548**	**131**	**37,994**	**(55,611)**	**865,335**
Adjustment on adoption of AASB 9		-	-	(620)	-	-	-	620	-
Profit for the year		-	-	-	-	-	73,453	(1,622)	71,831
Other comprehensive income (net of tax)		-	736	890	2,778	-	-	-	4,404
Total comprehensive income for the year		**-**	**736**	**890**	**2,778**	**-**	**73,453**	**(1,622)**	**76,235**
Transactions with owners in their capacity as owners									
Contributions of equity, net of transaction cost	19	17,173	-	-	-	-	-	-	17,173
Dividends provided for or paid	20	-	-	-	-	-	(65,259)	-	(65,259)
Total		**17,173**	**-**	**-**	**-**	**-**	**(65,259)**	**-**	**(48,086)**
Balance 31 December 2018		**893,567**	**1,615**	**270**	**8,326**	**131**	**46,188**	**(56,613)**	**893,484**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		853,627	777,833
Payments to suppliers and employees (inclusive of GST)		(695,208)	(626,525)
Interest received		455	1,004
Interest paid		(23,003)	(26,199)
Income taxes paid		(29,924)	(34,102)
Net cash inflows from operating activities	**21**	**105,947**	**92,011**
Cash flows from investing activities			
Payments for purchase of businesses (net of cash acquired)		(52,613)	(67,422)
Payments for purchase of intangible assets	14	(3,250)	-
Payments for divestments		(128)	(358)
Payments for property, plant and equipment		(36,819)	(18,432)
Net cash outflows from investing activities		**(92,810)**	**(86,212)**
Cash flows from financing activities			
Share issue costs	19	(47)	(5,347)
Debt issue costs		-	(4,357)
Dividends paid	20	(48,131)	(62,787)
Repayment of corporate notes		(50,000)	(70,000)
Proceeds from issue of shares	19	139	200,665
Inflows from borrowings		195,000	10,000
Outflows of borrowings		(103,981)	(51,204)
Net cash (outflows)/ inflows from financing activities		**(7,020)**	**16,970**
Net increase in cash and cash equivalents		6,117	22,769
Cash and cash equivalents at the beginning of the financial year		49,195	26,453
Effects of exchange rate changes on cash		209	(27)
Cash and cash equivalents at the end of the financial year	**16**	**55,521**	**49,195**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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1. FINANCIAL OVERVIEW

Note 1: Segment Information

(a) Description of segments

The Executive Team (the Chief Operating Decision Maker that makes strategic decisions) considers the business as one Group of centres and regularly reviews operating results at this level to assist and make decisions about the allocation of resources. The Executive Team has therefore identified one operating segment, being the management of child care centres. All revenue in this report was derived from external customers and relates to the single operating segment and the segment disclosure has not altered from the last Annual Report.

	Australia $'000	Foreign Country $'000	Total $'000
31 December 2018			
Revenue from external customers	835,222	16,308	851,530
Non-current assets*	1,217,624	34,089	1,251,713
31 December 2017			
Revenue from external customers	772,537	16,506	789,043
Non-current assets*	1,152,506	31,642	1,184,148

Timing of revenue recognition	Australia $'000	Foreign Country $'000	Total $'000
31 December 2018			
Revenue recognised at a point in time	820,938	16,304	837,242
Total revenue from contracts with customers	**820,938**	**16,304**	**837,242**
Other revenue	14,284	4	14,288
Total revenue	**835,222**	**16,308**	**851,530**
31 December 2017			
Revenue recognised at a point in time	757,931	16,475	774,406
Total revenue from contracts with customers	**757,931**	**16,475**	**774,406**
Other revenue	14,606	31	14,637
Total revenue	**772,537**	**16,506**	**789,043**

*Non-current assets exclude deferred tax assets and derivative financial instruments

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1. FINANCIAL OVERVIEW

Note 2: Revenue

	Consolidated	
	2018 $'000	2017 $'000
From continuing operations		
Sales revenue		
Revenue from child care centres	835,843	773,516
Funding relating to child care operations	13,499	13,269
	849,342	**786,785**
Other revenue		
Management fee Income	2,188	2,258
Total revenue continuing operations	**851,530**	**789,043**

Accounting policy

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of discounts, refunds and rebates.

The Group elected to adopt the full retrospective approach upon adoption of AASB 15. As there was no change to the measurement or timing of the recognition (i.e. based on when the performance obligation is satisfied) there has been no impact to the Group upon adoption of the new standard and therefore no changes to comparatives were required.

Revenue is recognised for the major business activities as follows:

(i) Revenue from child care centres

Fees paid by families and/or the Australian Government (Child Care Benefit, Child Care Tax Rebate and Child Care Subsidy) are recognised as and when a child attends a child care service, as under AASB15 this is when the customer has consumed the benefits of this service (satisfies its performance obligation).

Revenue received in advance from parents, guardians and government is recognised as deferred income and classified as a current liability (i.e. contract liability for performance obligations yet to be satisfied), (see note 10).

(ii) Funding related to child care operations

Training incentives and additional funding receipts are recognised when there is reasonable assurance that the incentive/receipt will be received and when the relevant conditions have been met as under AASB 120.

(iii) Management fee income

Fees paid by franchisees are recognised in accordance with the franchise agreement and once the operational support service has been performed, as this is when the Group transfers control of this service (satisfies its performance obligation) to the franchisee.

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1. FINANCIAL OVERVIEW

Note 3: Other Income

	Consolidated	
	2018 $'000	2017 $'000
Deferred consideration not payable (refer note 13)	2,199	243
Licence and other fees	4,029	6,473
Interest	415	1,047
Total other income	**6,643**	**7,763**

Accounting policy

(i) Deferred consideration

Refer note 13.

(ii) Licence and other fees

Licence fees are recognised over the term of the licence period as the Group has an enforceable right.

(iii) Interest income

Interest income is recognised using the effective interest method.

1. FINANCIAL OVERVIEW

Note 4: Expenses

	Consolidated	
	2018 $'000	2017 $'000
Profit before income tax includes the following specific expenses:		
Depreciation (refer note 9)	16,483	13,959
Employment costs		
Wages and salaries	466,636	410,807
Post-employment benefits	40,469	35,142
Share-based payment expense	-	(108)
	507,105	**445,841**
Finance costs		
Interest and finance charges	28,358	31,379
Foreign exchange loss	615	2,765
	28,973	**34,144**
Property rental expenses relating to operating leases		
Minimum lease payments	98,614	88,300
Bad & doubtful debts (refer note 7)	896	727

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1. FINANCIAL OVERVIEW

Note 5: Income Tax and Deferred Tax Assets

	Consolidated	
	2018 $'000	2017 $'000
(a) Income tax expense		
Current tax	34,088	36,708
Deferred tax	(2,292)	425
Under provision prior year	(1)	67
income tax expense	**31,795**	**37,200**
Income tax expense is attributable to:		
Profit from continuing operations	31,795	37,200
	31,795	**37,200**
Deferred income tax expense included in income tax expense comprises:		
(Increase) / decrease in deferred tax assets	(2,292)	425
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	103,626	117,781
Tax on operations at the Australian tax rate of 30% (2017: 30%)	31,088	35,334
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Adjustments relating to prior year	(1)	67
Entertainment	224	140
Deferred consideration not payable	(403)	(73)
Acquisition related costs – not deductible	968	1,336
Other non-allowable items	2	218
Difference in overseas tax rates	(83)	178
Income tax expense	**31,795**	**37,200**
Weighted average tax rate	30.7%	31.6%
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting year and not recognised in the consolidated income statement but directly debited or credited to equity		
Net deferred tax – (credited) / debited directly to equity	(656)	1,230

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Note 5: Income Tax and Deferred Tax Assets (continued)

	Consolidated	
	2018 $'000	2017 $'000
Deferred tax asset		
The balance comprises temporary differences attributable to:		
Employee benefits	10,017	8,764
Cash flow hedging	168	838
Share issue transaction costs	998	1,861
Total	**11,183**	**11,463**
Other		
s40-880 deductions	670	194
Provision for doubtful debts	492	282
Accrued expenses	4,250	3,038
Foreign exchange loss (derivatives)	1,850	1,670
Provisions	1,621	298
Total other	**8,883**	**5,482**
Total deferred tax assets	**20,066**	**16,945**
Deferred tax liability		
Buildings	(220)	(217)
Make good	(1,414)	-
Prepayments	(576)	(508)
Total deferred tax liability	**(2,210)**	**(725)**
Net deferred tax asset	**17,856**	**16,220**

	Employee Benefits $'000	Share Issue Transaction Costs $'000	Other $'000	Total $'000
At 1 January 2017	**8,510**	**1,295**	**5,610**	**15,415**
Charged to the consolidated income statement	254	(1,041)	362	(425)
Charged directly to equity	-	1,607	(377)	1,230
At 31 December 2017	**8,764**	**1,861**	**5,595**	**16,220**
Charged to the consolidated income statement	1,253	(877)	1,916	2,292
Charged directly to equity	-	14	(670)	(656)
At 31 December 2018	**10,017**	**998**	**6,841**	**17,856**

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Tax consolidation

(i) Members of the tax consolidated group and the tax sharing agreement

G8 Education Ltd (G8 Education) and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 3 December 2007. G8 Education is the head entity of the tax consolidated group. Members of the tax consolidated group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement, the funding of tax within the Group is based on an acceptable method of allocation under AASB Interpretation 1052. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

(iii) Tax related contingencies

At 31 December 2018 there are no tax related contingencies (2017: nil).

Accounting policy

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

G8 Education and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1. FINANCIAL OVERVIEW

Note 6: Earnings per Share

	Consolidated	
	2018 CPS	2017 CPS
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the company	15.87	18.92
(b) Diluted earnings per share		
Profit from continuing operation attributable to the ordinary equity holders of the Company	15.87	18.91
	$'000	$'000
(c) Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	71,831	80,581
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	71,831	80,581
	Number	Number
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	452,819,479	425,942,976
Adjustments for calculation of diluted earnings per share:		
Performance rights*	-	141,348
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**452,819,479**	**426,084,324**

* If 31 December 2018 were the end of the contingency period nil shares would be issuable.

Accounting policy

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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1. FINANCIAL OVERVIEW

Note 7: Current Assets – Trade and Other Receivables

	Consolidated	
	2018 $'000	2017 $'000
Trade receivables	24,092	20,525
Allowance for impairment of receivables (note (a) below)	(1,721)	(1,013)
	22,371	**19,512**
GST receivable	1,633	1,007
Other debtors	12,498	9,847
Total trade and other receivables	**36,502**	**30,366**

(a) Impaired trade receivables

As at 31 December 2018 current trade receivables of the Group were assessed for impairment. The allowance for expected credit losses recognised during the year was $1,721,174 (2017: $1,013,345).

Movements in the allowance for expected credit losses of receivables are as follows:

	Consolidated	
	2018 $'000	2017 $'000
Opening balance	1,013	718
Allowance for impairment recognised during the year (refer note 4)	896	727
Receivables written off during the year as uncollectable	(188)	(432)
Closing balance	**1,721**	**1,013**

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovery.

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(b) Past due but not impaired

As at 31 December 2018, trade receivables of $6,046,442 (2017: $6,241,527) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default and for which full payment is expected.

The ageing analysis of these trade receivables is as follows:

	2018 $'000	2017 $'000
Up to 3 months	5,826	6,064
3 to 6 months	51	14
Over 6 months	169	164
	6,046	**6,242**

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is considered to approximate their fair value.

Information concerning the credit risk of receivables is set out in note 15.

Accounting policy

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade receivables represent child care fees receivable from families (parent fees) and/or the Australian Government.

Under the Child Care Management System (CCMS), implemented in July 2008, Child Care Benefits are generally paid weekly in arrears by the Australian Government based on the actual attendance and entitlement of each child attending the child care centre. The Child Care Subsidy (CCS), implemented in July 2018, operates in the same manner.

Parent fees are required to be paid one week in advance. The parent fees receivable relates to child care fees where amounts are past due and not paid in advance.

The Group applied the expected credit loss (ECL) model. For trade and other receivables and deposits on acquisition, the Group has applied the standard's simplified approach whereby the loss allowance is measured at an amount equal to lifetime expected credit losses. The Group assesses expected credit losses in a way that reflects:

An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

The Group has established a calculation that is based on the Group's historic credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

1. FINANCIAL OVERVIEW

Note 8: Current and Non-Current Assets – Other

	Consolidated	
	2018 $'000	2017 $'000
Current		
Prepayments	7,062	5,500
Inventory	5,698	4,463
Deposits	1,360	2,398
Total other current assets	**14,120**	**12,361**
Non-current		
Deposits on acquisitions	24,200	29,443
Prepayments	692	1,456
Deposits	655	1,374
Total other non-current assets	**25,547**	**32,273**
Total other current and non-current assets	**39,667**	**44,634**

Accounting policy

Deposits on acquisitions relate to deposits made for the purchase of centres. Once settled the amount transferred forms part of the business combination accounting.

Inventories relate to childcare centre consumables. These are measured at the lower of cost and net realisable value. Any write down in the value of the inventory due to obsolescence is booked as an expense when the inventory becomes obsolete. Current replacement cost is the cost the Group would incur to acquire or replace inventories held for distribution at balance date.

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1. FINANCIAL OVERVIEW

Note 9: Non-Current Assets – Property, Plant and Equipment

	Buildings	Vehicles	Furniture, fittings and equipment	Make good	Total
	$'000	$'000	$'000	$'000	$'000
Consolidated					
Year ended 31 December 2018					
Opening net book amount	4,146	251	54,429	5,080	63,906
Additions through business combinations (refer note 13)	-	276	6,706	-	6,982
Provision	-	-	-	170	170
Additions	-	10	37,778	-	37,788
Disposals	-	(53)	(647)	-	(700)
Depreciation charge	(152)	(101)	(15,696)	(534)	(16,483)
Effect of foreign exchange on depreciation	-	-	47	-	47
Closing net book amount	**3,994**	**383**	**82,617**	**4,716**	**91,710**
At 31 December 2018					
Cost	5,046	1,412	145,778	5,250	157,486
Accumulated depreciation	(1,052)	(1,029)	(63,161)	(534)	(65,776)
Net book amount	**3,994**	**383**	**82,617**	**4,716**	**91,710**

	Buildings	Vehicles	Furniture, fittings and equipment	Make Good	Total
	$'000	$'000	$'000	$'000	$'000
Consolidated					
Year ended 31 December 2017					
Opening net book amount	4,298	312	50,235	-	54,845
Additions through business combinations (refer note 13)	-	-	815	-	815
Initial provision	-	-	-	5,080	5,080
Additions	-	-	18,187	-	18,187
Disposals	-	(5)	(1,050)	-	(1,055)
Depreciation charge	(152)	(56)	(13,751)	-	(13,959)
Effect of foreign exchange on depreciation	-	-	(7)	-	(7)
Closing net book amount	4,146	251	54,429	5,080	63,906
At 31 December 2017					
Cost	5,046	1,179	101,812	5,080	113,117
Accumulated depreciation	(900)	(928)	(47,383)	-	(49,211)
Net book amount	**4,146**	**251**	**54,429**	**5,080**	**63,906**

(a) Leasehold Improvements

Furniture, fittings and equipment includes the following amounts that are leasehold improvements:

	Consolidated	
	2018 $'000	2017 $'000
Cost	91,681	64,894
Accumulated depreciation	(30,908)	(21,448)
Net book amount	**60,773**	**43,446**

(b) Non-current assets pledged as security

Refer to note 17 for information on the non-current assets pledged as security by the Company and its controlled entities.

Accounting policy

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the reporting year in which they are incurred.

Depreciation for vehicles is calculated using the diminishing value method and on other assets calculated using the straight-line method to allocate their cost net of their residual values, over their estimated lives, as follows:

- Buildings: 40 years
- Vehicles: 3 – 12 years
- Furniture, fittings and equipment: 2 – 15 years
- Leasehold Improvements: 5 – 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated income statement.

Refer to note 11(b) for accounting policy on make good.

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1. FINANCIAL OVERVIEW

Note 10: Current and Non-Current Liabilities – Trade and Other Payables

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000
Trade payables (i)		16,742	9,343
Contingent consideration	13	1,969	13,546
Centre enrolment advances (i)		3,286	5,845
Other payables and accruals (i)		42,886	35,170
Acquisitions payables		3,028	1,999
Total current		**67,911**	**65,903**
Lease accounting liability (ii)		4,542	312
Contingent consideration	13	718	755
Total non-current		**5,260**	**1,067**

Accounting policy

These amounts represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(i) Trade and other payables are non-interest bearing and are normally settled on 30-day terms.

(ii) Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

1. FINANCIAL OVERVIEW

Note 11: Current and Non-Current Liabilities – Provisions

	Consolidated 2018 $'000	Consolidated 2017 $'000
Current liabilities		
Employee benefits (note (a) below)	29,988	26,096
Total current	**29,988**	**26,096**
Non-current liability		
Employee benefits	3,537	3,241
Make good provision (note (b) below)	5,398	5,080
Total non-current	**8,935**	**8,321**

(a) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave, it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the annual leave provision is presented as current since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

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Note 11: Current and Non-Current Liabilities – Provisions (continued)

	Consolidated	
	2018 $'000	2017 $'000
Leave obligations expected to be settled after 12 months	4,454	4,743
	4,454	**4,743**

Accounting policy

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled wholly within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and in particular cases, annual leave, is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and years of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based payments made to employees and others providing similar services, that grant rights over the shares of the parent entity, G8 Education, are accounted for as equity-settled share-based payment transactions when the rights over the shares are granted by G8 Education.

Equity-settled share based-payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured using the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on directors' best estimates, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

(b) Make good provision

Costs required to return certain leased premises to their original condition as set out in the lease agreements are recognised as a provision in the financial statements. The provision has been calculated as an estimate of future costs and discounted to present value.

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2. BUSINESS COMBINATIONS, GOODWILL & IMPAIRMENT

Note 12: Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 14. The recoverable amounts of goodwill have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 14 for details of these assumptions and the potential impact of changes to these assumptions.

(ii) Deferred contingent consideration on acquisition of businesses

The Group includes the fair value of deferred contingent consideration as a liability for the acquisition of a business where it expects the earn-out target to be met. This judgement is based on operational due diligence and knowledge of the business trading conditions including location, occupancy and profitability at the time of settlement. Where outside the measurement period under AASB 3 Business combinations, if the earn out target is not met then the amount not paid of the deferred contingent consideration is taken to the consolidated income statement as a credit and the corresponding entry against the liability.

(iii) Long service leave

The liability for long service leave is recognised as a provision for employee benefits and measured at the present value of estimated future payments to be made in respect of services provided by employees up to the end of the reporting period. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on staff turnover history.

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2. BUSINESS COMBINATIONS, GOODWILL & IMPAIRMENT

Note 13: Business Combinations

The acquisitions below have increased the Group's market share and are expected to reduce costs per centre through economies of scale. The goodwill is attributable to the future profitability of the acquired businesses.

During the year the Group purchased 16 centres from various vendors as outlined below:

Number of centres	6	6	4	16
State	SA/WA/ NSW/QLD	NSW	VIC	TOTAL
Purchase consideration	**$'000**	**$'000**	**$'000**	**$'000**
Cash consideration	6,564	24,271	12,529	43,364
Purchase price adjustments (to cash)	(635)	(46)	-	(681)
Contingent consideration	1,793	2,692	1,769	6,254
Total purchase consideration	**7,722**	**26,917**	**14,298**	**48,937**
Assets and liabilities acquired at fair value				
Property, plant and equipment	102	3,499	3,106	6,707
Net identifiable assets/(liabilities) acquired	**102**	**3,499**	**3,106**	**6,707**
Goodwill	7,620	23,418	11,192	42,230
	7,722	**26,917**	**14,298**	**48,937**
Revenue and profit contribution from the date of acquisition to period end 31 December 2018 (i)				
Revenue	4,949	3,002	573	8,524
Profit/(Loss) before tax	(380)	(1,072)	(1,628)	(3,080)

(i) The loss for the period was $3.1m, the centres commenced operating on acquisition by G8 Education, therefore there is no full year operating results to report.

Acquisition costs of $5,450,530 (2017: $3,422,860) are included in the consolidated income statement.

As at 31 December 2018 accounting for the 2018 acquisitions are provisional in nature due to final completion statements not being received at year end.

No goodwill is deductible for tax purposes.

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During the year accounting adjustments were made to provisional amounts recognised in 2017 as outlined below:

	2017 Adjustments Australia
Purchase consideration	**$'000**
Cash consideration	(335)
Purchase price adjustments (to cash)	(274)
Contingent consideration	(767)
Total purchase consideration	**(1,376)**
Assets and liabilities acquired at fair value	
Property, plant and equipment	276
Employee benefit liabilities	(35)
Net identifiable assets/(liabilities) acquired	241
Goodwill	(1,617)
	(1,376)

The above amounts relate to accounting adjustments for assets and liabilities taken on at acquisition date but not finalised at 31 December 2017.

Contingent Consideration

As part of the purchase agreement with previous owners a portion of the consideration was determined to be contingent, based on the performance of the acquired business.

The following table outlines the additional cash payments to the previous owners upon meeting specified performance conditions:

At 31 December 2018	Total potential contingent consideration payable $'000	Carrying value $'000	Conditions
Acquisition of 3 centres*	1,969	1,969	24 month performance hurdle based on EBIT
Acquisition of 1 centre	1,050	718	19 years occupancy hurdle based on licence capacity
Total	**3,019**	**2,687**	

*The Group has assessed these hurdles will be reached within 12 months and accordingly have recorded these amounts as current.

A reconciliation of the fair value of the contingent consideration liability is provided below:

	Consolidated	
	2018 $'000	2017 $'000
Financial liability for contingent consideration as at 31 December	14,301	4,752
Write back of contingent consideration to the consolidated income statement for performance condition not met – other income (refer note 3)	(2,199)	(243)
Write back of contingent consideration to goodwill for performance condition not met	(805)	-
Fair value adjustments	38	76
Contingent consideration paid	(14,902)	(4,231)
Contingent consideration for new acquisitions	6,254	13,947
Total contingent consideration payable as at 31 December	**2,687**	14,301

Accounting policy

The acquisition method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange.

Acquisition costs paid by the Company are expensed.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as a financial liability. Amounts classified as a financial liability that are subsequently not required to be paid at the end of the earn out period or are re-estimated during the period are recognised as other income.

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2. BUSINESS COMBINATIONS, GOODWILL & IMPAIRMENT

Note 14: Non-Current Assets – Intangible assets

	Consolidated			
	2018			2017
	Goodwill $'000	Intellectual Property $'000	Total $'000	Total $'000
Opening net book amount	1,087,969	-	1,087,969	1,015,002
Additions	42,230	3,250	45,480	73,602
Adjustments in respect of prior year acquisitions	(1,617)	-	(1,617)	225
Disposal of centres	-	-	-	(851)
Exchange differences	2,624	-	2,624	(9)
Closing net book amount	**1,131,206**	**3,250**	**1,134,456**	**1,087,969**
			-	
Cost	1,142,258	3,250	1,145,508	1,099,021
Accumulated impairment	(11,052)	-	(11,052)	(11,052)
Net book amount	**1,131,206**	**3,250**	**1,134,456**	**1,087,969**

The Group divested 8 centres during 2018 (2017: 22).

(a) Impairment tests

Goodwill and intellectual property are monitored and tested for impairment on an operating segment level as outlined in the accounting policy below. The recoverable amount of the child care centre assets is determined based on value-in-use calculations. These calculations use cash flow projections based on budgets for 2019 and then extrapolated using estimated growth rates. The growth rate does not exceed the long-term average growth rate for the business. For the purposes of intangible assets impairment testing, the recoverable amount is compared to the carrying amount of the assets of the Group, which aside from goodwill and intellectual property, also includes the fixed assets of the child care centres and working capital.

(b) Key assumptions used for value-in-use calculation

The value-in-use calculation is based on forecast EBITDA which is a function of each of the following key assumptions, occupancy, child care fees and centre expenses. Occupancy and child care fees are based on the current market conditions plus anticipated annual increases. Centre expenses include the following key items:

- Centre wages – based on industry award standards and forecast to increase by the historically established wage cost as a percentage of revenue which is driven by future growth in occupancy;
- Centre occupancy expenses – based on current operating leases and increased by a historically established occupancy cost as a percentage of revenue which is driven by future growth in occupancy; and
- Other child care expenses – driven by historical expenditure and future occupancy growth.

The anticipated occupancy reflects seasonal factors and underlying growth in occupancy achieved from the implementation of the Group's strategies. Economic occupancy levels represent the key to financial success for the Group given the largely fixed cost-base of child care centres.

The impairment model has the following key attributes:

- Pre-tax discount rate of 12% (2017: 13%); the reduction in the weighted average cost of capital reflects the refinance of the Group's Syndicated Debt Facilities and the amendment to the dividend policy during the year.
- Full support office costs allocation; and
- Forecast period of 3 years plus a terminal growth calculation with a growth rate of 0% (2017: 0%).

(c) Impairment charge

The assessment of the discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings of the Group.

Management have determined no impairment was required as at 31 December 2018 (2017: nil). The Group has completed a sensitivity analysis on its impairment model and no reasonably possible movement in the key assumptions would give rise to an impairment loss.

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3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 15: Financial Risk Management

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, foreign exchange risk and liquidity risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to hedge certain risk exposures.

Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, and other risks, and ageing analysis for credit risk under the expected credit loss model.

The risk management of the Group is conducted in a manner consistent with policies approved by the Board. The Board provides principles for overall risk management, as well as policies covering specific areas, such as, interest rate risk, credit risk, foreign exchange risk and investment of excess liquidity.

The Group holds the following financial instruments:

	Derivatives used for cash flow hedges $'000	Derivatives used for fair value hedges $'000	Financial assets at fair value $'000	Financial assets at amortised cost $'000	Total $'000
2018					
Financial assets					
Cash and cash equivalents	-	-	-	55,521	55,521
Trade and other receivables	-	-	-	36,502	36,502
Deposits on acquisitions	-	-	24,200	-	24,200
Derivative financial instruments	(560)	11,397	-	-	10,837
	(560)	**11,397**	**24,200**	**92,023**	**127,060**
2017					
Financial assets					
Cash and cash equivalents	-	-	-	49,209	49,209
Trade and other receivables	-	-	-	29,298	29,298
Deposits on acquisitions	-	-	29,443	-	29,443
Derivative financial instruments	-	-	622	-	622
	-	**-**	**30,065**	**78,507**	**108,572**

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3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 15: Financial Risk Management (continued)

	Derivatives used for cash flow hedges $'000	Derivatives used for fair value hedges $'000	Liabilities at amortised cost $'000	Total $'000
2018				
Financial liabilities				
Trade and other payables	-	-	36,733	36,733
Borrowings	-	-	371,754	371,754
	-	**-**	**408,487**	**408,487**
2017				
Financial liabilities				
Trade and other payables	-	-	35,030	35,030
Borrowings	-	-	303,494	303,494
Derivative financial instrument	2,793	11,013	-	13,806
	2,793	**11,013**	**338,524**	**352,330**

The Group also has contingent consideration measured at fair value as disclosed in Note 13.

(a) Foreign exchange risk

The Group has operations and borrowings in Singapore and is exposed to foreign exchange risk associated with the Singapore dollar.

Foreign exchange risk arises from future commercial transactions and from recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

The foreign exchange risk associated with the Singapore operations is managed through a natural hedge as the cash flows from the Singapore operations are denominated in Singapore dollars.

The Group also has current Singapore dollar denominated corporate notes outstanding with a total value of SGD$270m. On 18 May 2016 the Group entered into a cross currency swap agreement to hedge against

1) changes to the AUD/SGD forward rate at inception to mitigate the foreign exchange exposure on the highly probable repayment of SGD denominated borrowings (Senior Unsecured Notes issued under G8 Education's SGD$600m Multicurrency Issuance Program); and

2) the foreign exchange exposure on the coupon payments associated with the SGD$270m corporate notes where the group pays 6.54% on AUD$269,892,043 and receives 5.50% on SGD$270m.

On the 18 May 2016, the Group purchased an AUD/SGD call option with a notional value of SGD$270m, strike price of $1.175 and maturity date of 18 May 2019. This instrument is not designated as a hedge instrument and was purchased as an additional layer of counterparty security that ultimately eliminated collateral posting requirements. The movement in the value of this option is recognised through the consolidated income statement (refer note 4).

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The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Singapore dollars, was as follows:

	2018 SGD $'000	2017 SGD $'000
Cash and cash equivalents	2,298	2,333
Trade receivables	896	572
Borrowings*	(270,000)	(265,748)
Trade payables	(161)	(324)
	(266,967)	**(263,167)**

*The Group entered into a cross currency swap to hedge against foreign exchange exposure on SGD borrowings whereby foreign exchange risk is mitigated by fair value movements being fully hedged.

The SGD to AUD exchange rate at 31 December 2018 was 1.0394 (2017: 0.9581).

Amounts recognised in the consolidated income statement and other comprehensive income (refer note 4).

During the year, the following foreign-exchange related amounts were recognised in the consolidated income statement and other comprehensive income:

Amounts recognised in the consolidated income statement	2018 $'000	2017 $'000
Exchange gains/(losses) on foreign currency borrowing included in finance costs	(11,396)	10,985
Net revaluation of cross currency swap included in finance costs – SGD borrowings	11,396	(11,013)
Net revaluation of the AUD/SGD call option included in finance costs	(622)	(2,737)
	(622)	**(2,765)**

Net gains recognised in other comprehensive income	2018 $'000	2017 $'000
Translation of foreign operations	2,778	(23)
Net revaluation of the cross currency swap – SGD borrowings	1,626	1,921

Sensitivity

As shown in the table above, the Group's only foreign exchange risk relates to changes in AUD/SGD exchange rates.

The sensitivity of profit or loss to changes in the exchange rates arises mainly from SGD-dollar denominated borrowings.

The group has in place a cross currency swap to fully hedge against foreign currency exposure on SGD borrowings. Due to the effective nature of the hedge arrangement there is no material impact on post tax profits.

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Accounting policy

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is G8 Education's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement, within finance costs. All other foreign exchange gains and losses are presented in the consolidated income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency and are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(iii) Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

2. Income and expenses for each consolidated income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

3. All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate.

(b) Interest rate risk

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value. G8 Education's fixed and floating borrowing mix is to be monitored by management and reported to the Board on a regular basis (at least quarterly). Derivative products may be used to manage G8 Education's interest rate risk profile but any hedging undertaken is subject to Board approval and will not exceed the level of floating rate exposure. During 2018 and 2017, the Group's borrowings at variable rates where denominated in Australian dollars only.

The Group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 9, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. The corporate notes denominated in Singapore dollars are all fixed rate notes.

Instruments used by the Group

During 2016, the group entered into a cross currency swap as set out in note 15(a).

As at the reporting date, the Group had the following variable rate borrowings outstanding:

	31 December 2018		31 December 2017	
	Balance	Total Loans	Balance	Total Loans
	$'000	%	$'000	%
Corporate Notes	-	-	50,000	16%
Subordinated Facility 2	47,200	13%	-	-
Net exposure to cash flow interest rate risk	**47,200**	**13%**	**50,000**	**16%**

An analysis by maturities is provided in 15(d) following.

Amounts recognised in the consolidated income statement and other comprehensive income

The following losses were recognised in the consolidated income statement and other comprehensive income in relation to cross currency swap designated as a cash flow hedge:

Amounts recognised in other comprehensive income	2018 $'000	2017 $'000
Losses recognised as a result of cross currency swap designated as cash flow hedge	(1,626)	(1,921)

Group sensitivity

At 31 December 2018, if interest rates had changed by – 0.25%/+ 0.25% absolute from the year end rates with all other variables held constant, post-tax profit for the year would have been $82,374 higher or $82,374 lower respectively (net profit for 2017: $87,260 higher or $87,260 lower respectively).

(c) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to trade and other debtors. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised below.

Trade debtor credit risk is managed by requiring child care fees to be paid in advance. Outstanding debtor balances are reviewed weekly and followed up in accordance with the Group's debt collection policy. Credit risk is also minimised by federal government funding in the form of child care subsidy, the Federal Government is considered to be a high quality debtor.

Analysis of the ageing of receivables is performed in note 7.

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(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group have sufficient undrawn facilities of $400.0m as at 31 December 2018 to cover current contractual cash flows including the repayment of corporate notes (refer note 17).

Financing arrangements

Details of financing arrangements are disclosed in note 17.

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining term at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

Contractual maturities of financial liabilities

	Consolidated 2018 $'000						
	0 to 6 months	6 to 12 months	Between 1 and 2 years	Between 2 and 5 years	>5years	Total cash contractual flows	Carrying amount
Non derivative							
Corporate Note	278,693	-	-	-	-	278,693	280,678
Syndicated Debt Facilities	3,390	3,838	7,675	75,840	64,634	155,377	100,000
Contingent consideration	411	651	1,057	225	675	3,019	2,687
Trade and other payables	36,733	-	-	-	-	36,733	36,733
Derivatives							
Net settled (FX hedge)	(10,587)	-	-	-	-	(10,587)	(10,837)

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3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 15: Financial Risk Management (continued)

Contractual maturities of financial liabilities

	Consolidated 2017 $'000						
	0 to 6 months	6 to 12 months	Between 1 and 2 years	Between 2 and 5 years	>5years	Total cash contractual flows	Carrying amount
Non derivative							
Corporate Note	56,649	8,946	278,693	-	-	344,288	308,268
Syndicated Debt Facilities	-	-	-	-	-	-	-
Contingent consideration	-	2,390	11,306*	225	750	14,671	14,301
Trade and other payables	35,030	-	-	-	-	35,030	35,030
Derivatives							
Net settled (FX hedge)	1,662	1,678	10,853	-	-	14,193	13,806

*Refer note 13

(e) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

i) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

ii) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table present the Group's assets and liabilities measured and recognised at fair value on a recurring basis at 31 December 2017 and 31 December 2018:

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Note 15: Financial Risk Management (continued)

At 31 December 2018 $'000	Level 1	Level 2	Level 3	Total
Asset				
Derivatives used for hedging	-	10,837	-	10,837
Deposit on acquisitions*	-	-	24,200	24,200
Liabilities				
Derivatives used for hedging	-	-	-	-
Contingent consideration (refer note 13)	-	-	2,687	2,687

At 31 December 2017 $'000	Level 1	Level 2	Level 3	Total
Asset				
Derivative financial asset	-	622	-	622
Deposit on acquisitions*	-	-	29,443	29,443
Liabilities				-
Derivatives used for hedging	-	13,806	-	13,806
Contingent consideration (refer note 13)	-	-	14,301	14,301

*Deposits on acquisitions are fully refundable

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The fair value of the financial instrument equals the carrying value.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(i) Cross currency swap

The fair value movement on the principal repayment is being treated as a fair value hedge with all movements being recorded through finance costs. The coupon payments associated with the corporate notes have been designated as a cash flow hedge with all movements being recorded in other comprehensive income.

(ii) Foreign exchange option

On 18 May 2016, the Group purchased an AUD/SGD call option with a notional value of SGD$270.0m strike price of $1.175 and maturity date of 18 May 2019. Under AASB 139, this instrument was not designated as a hedge instrument and was purchased as an additional layer of counterparty security that ultimately eliminated collateral posting requirements. However, following adoption of AASB 9 the Group elected to treat this as a cost of hedging. The movement in the currency basis of the cash flow hedge (and the option) has been recognised within the cost of hedging reserve.

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3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 16: Current Assets – Cash and Cash Equivalents

	Consolidated	
	2018 $'000	2017 $'000
Cash at bank and in hand	38,437	24,611
Deposits at call	17,084	24,598
Total cash and cash equivalents	**55,521**	**49,209**

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated	
	2018 $'000	2017 $'000
Balance as per above	55,521	49,209
Term deposits held as security against bank guarantees and foreign exchange hedge	-	(14)
Balance as per statement of cash flows	**55,521**	**49,195**

Accounting policy

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 17: Current and Non-Current Liabilities – Borrowings

	2018			2017		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Unsecured						
Corporate Notes (a)	280,678	-	**280,678**	50,000	258,268	**308,268**
Total unsecured borrowings	**280,678**	**-**	**280,678**	**50,000**	**258,268**	**308,268**
Secured						
Syndicated Debt Facilities (b)	-	100,000	**100,000**	-	-	**-**
Total secured borrowings	-	**100,000**	**100,000**	-	-	-
Borrowing costs	(1,112)	(7,812)	**(8,924)**	(95)	(4,679)	(4,774)
Total borrowings	**279,566**	**92,188**	**371,754**	**49,905**	**253,589**	**303,494**

(a) Corporate notes

G8 Education has the following Corporate notes outstanding at year end:

Issue Date	Face value in issue currency $'000	Issue currency	Repayment date	Interest rate %	Floating or fixed
18 May 2016	270,000	SGD	18 May 2019	5.5%*	Fixed

*SGD bonds are fully hedged at a fixed interest rate of 6.54% on AUD $269m

Details of the Group's exposure to foreign exchange on Singapore denominated borrowings terms are set out in note 15(a) and (e).

G8 Education has complied with the financial covenants relating to the AUD and SGD Corporate Notes and Syndicated Debt Facilities during 2018 and 2017 reporting periods.

(b) Syndicated Debt Facilities

During 2018 the Group entered into a $400m Senior Syndicated Facility, a $100m Subordinated Facility and a $50m letter of credit facility. The Syndicated Debt Facilities were successfully executed on the 19 October 2018. The interest rate payable on the Senior Syndicated Facility and the Subordinated Facility 2 is based on the base rate (BBSW) plus each lender's margin, which is determined by reference to the Net Leverage Ratio calculated using market standard financial ratios. The interest payable on the Subordinated Facility 1 is a fixed rate. In the event the facilities remain undrawn a commitment fee was payable on the unused and uncancelled amount of the facilities.

(c) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 15(b).

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The carrying amounts of assets pledged as security for current and non-current borrowings are:

		Consolidated	
		2018	2017
Current	**Notes**	**$'000**	**$'000**
Floating charge			
Cash and cash equivalents	16	55,521	49,209
Trade and other receivables	7	36,502	30,366
Other current assets	8	14,120	12,361
Total current assets pledged as security		**106,143**	**91,936**
Non-current			
First mortgage			
Buildings	9	3,994	4,146
Floating charge			
Other non-current assets	8	25,547	32,273
Vehicles, furniture, fittings and equipment	9	83,000	54,680
Total non-current assets pledged as security		**112,541**	**91,099**
Total assets pledged as security		**218,684**	**183,035**

(d) Financing arrangements

As at 31 December 2018 the following lines of credit were in place:

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3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 17: Current and Non-Current Liabilities – Borrowings (continued)

	Consolidated	
	2018 $'000	2017 $'000
Credit standby arrangements		
Total facilities		
Credit cards	500	500
Used at balance date	(377)	(158)
Unused at balance date	**123**	**342**
Syndicated Debt Facility		
Total facilities	500,000	200,000
Used at balance date	(100,000)	-
Unused at balance date	**400,000**	**200,000**
Bank guarantee facilities		
Total facilities	50,000	45,000
Used at balance date	(33,233)	(36,663)
Unused at balance date	**16,767**	**8,337**
Corporate Notes		
Total facilities	280,678	308,268
Used at balance date	(280,678)	(308,268)
Unused at balance date	**-**	**-**

The group maintains a secured facility for the provision of bank guarantees to landlords of premises leased by the Group and Syndicated Debt Facilities.

(e) Fair value

The carrying amounts and fair values of borrowings at balance dates are as reflected in the Balance Sheet. The SGD bond carrying amount is AUD$280.7m which represents fair value. AUD$269.0m is payable to satisfy this liability due to the cross currency swap.

Accounting Policy

Measurement

Borrowings are initially recognised at fair value, net of transaction cost incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statement over the year of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facilities, are capitalised to the loan and expensed on a straight-line basis over the term of the facilities.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the consolidated income statement as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

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3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 18: Derivative Financial Instruments

	Consolidated	
	2018 $'000	2017 $'000
Current asset		
Cross currency swap contracts – cash flow hedges	(560)	-
Cross currency swap contracts – fair value hedge	11,397	-
Total current derivative financial instrument asset	**10,837**	-
Non-current asset		
Foreign exchange option	-	622
Total non-current derivative financial instrument asset	**-**	**622**
Non-current liability		
Cross currency swap contracts – cash flow hedges	-	2,793
Cross currency swap contracts – fair value hedge	-	11,013
Total non-current derivative financial instrument liability	**-**	**13,806**

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 15).

Accounting policy

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(i) Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedge); or

(ii) Hedges of a particular risk associated with the fair value of recognised assets and liabilities and highly probable forecast transactions (fair value hedge)

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in note 18. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Fair value hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as fair value hedges is recognised in finance costs in the consolidated income statement and offset with a similar gain or loss on the associated borrowings. There is no ineffectiveness in the year 2018.

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Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within other income or other expense.

Amounts accumulated in equity are reclassified to the consolidated income statement in the periods when the hedged item affects the consolidated income statement (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised within finance costs.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the consolidated income statement.

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 19: Contributed Equity

(a) Share capital

	Consolidated		Consolidated	
	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Ordinary shares fully paid	455,379,630	448,536,926	893,567	876,394

(b) Movements in ordinary share capital

Details	Number of Shares '000	$'000
31 December 2016 balance	**381,097**	**641,848**
Dividend reinvestment plan	10,121	37,621
Equity placement	55,904	195,658
Issuance of shares (see note 19c)	1,374	5,007
Transaction costs of shares issued	-	(5,347)
Deferred tax credit recognised directly in equity	-	1,607
31 December 2017 balance	**448,496**	**876,394**
Dividend reinvestment plan	6,843	17,129
Issuance of shares (see note 19c)	41	139
Transaction costs of shares issued	-	(47)
Deferred tax credit recognised directly in equity	-	(48)
31 December 2018 balance	**455,380**	**893,567**

(c) Shares held in escrow under the executive share plan

	Consolidated	
	2018 Shares '000	2017 Shares '000
Balance at the beginning of the financial year	41	1,415
Shares transferred to the Group under the plan*	(41)	(1,374)
Total outstanding at the end of the financial year	**-**	**41**

*Shares forfeited and sold on market due to the discontinuation of the plan.

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(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(e) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares. Shares are issued under the plan. The Company advises the market at the time of announcing the dividend if there will be a discount applied to the market price.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios at 31 December were as follows:

		Consolidated	
	Notes	2018 $'000	2017 $'000
Borrowings	17	371,754	303,494
Less: cash and cash equivalents	16	(55,521)	(49,209)
Net debt		316,233	254,285
Total equity		893,482	865,335
Total capital		**1,209,715**	**1,119,620**
Gearing ratio		**26%**	**23%**

The Directors assess an appropriate level of gearing based on a leverage rate of less than 45%.

Accounting policy

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 20: Dividends

(a) Ordinary shares

Dividends declared or paid during the financial year were as follows:

Dividends	CPS	Total dividend $'000
Financial year 2018		
2018 interim dividend (paid on 23 March 2018)	10.0	44,854
2018 interim dividend (paid on 5 October 2018)	4.5	20,405
Dividend paid during the year ended 31 December 2018		**65,259**
Cash		48,131
Dividend reinvestment plan		17,128
Dividend paid during the year ended 31 December 2018		**65,259**

Dividends	CPS	Total dividend $'000
Financial year 2017		
Dividend for the quarter ended 31 December 2016 (paid on 6 January 2017)	6.0	22,950
Dividend for the quarter ended 31 March 2017 (paid on 7 April 2017)	6.0	24,117
Dividend for the quarter ended 30 June 2017 (paid on 7 July 2017)	6.0	26,599
Dividend for the quarter ended 30 September 2017 (paid on 6 October 2017)	6.0	26,741
Dividend paid during the year ended 31 December 2017		**100,407**
Cash		62,787
Dividend reinvestment plan		37,620
Dividend paid during the year ended 31 December 2017		**100,407**

G8 Education moved to a semi-annual dividend payment policy from 1 January 2018, with dividends to be declared in the full year and half year results announcements.

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Note 20: Dividends (continued)

(b) Franking credits

	Consolidated		Parent Entity	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2017: 30%)	8,025	1,698	8,025	1,698

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

a) Franking credits that will arise from the payment of the amount of the provision for income tax;

b) Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;and

c) Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if the distributable profits of subsidiaries were paid as dividends.

Accounting policy

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at reporting date.

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3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 21: Reconciliation of Cash Flows

Reconciliation of profit after tax to net cash flows from operating activities

	Consolidated	
	2018 $'000	2017 $'000
Profit for the year	71,831	80,581
Depreciation	16,483	13,959
Foreign exchange gain / (loss) on Singapore Corporate Notes	-	1,921
Fair value adjustment to derivatives	622	(23)
Net loss on sale of assets	729	1,547
Write back of deferred consideration not payable	(2,199)	(243)
Amortised borrowings costs	4,200	4,145
Bank guarantee fees	576	-
Write back of make good costs	147	-
Brokerage fees treated as investing cashflows	1,179	1,160
(Increase)/decrease in deferred tax asset	(1,636)	805
(Increase)/decrease in trade and other debtors	(4,883)	(13,355)
Increase/(decrease) in trade and other creditors	11,953	936
Increase/(decrease) in contract liabilities	(683)	(1,011)
Increase/(decrease) in provisions	4,119	(1,402)
Non- cash employee benefits expense – share based payments	-	(108)
Increase/(decrease) in provision for income taxes payable	3,508	2,673
Net exchange differences	1	426
Net cash inflows from operating activities	**105,947**	**92,011**

Changes in liabilities arising from financing activities

	Opening balance 1 Jan 2018 $'000	Cash flows $'000	Foreign exchange movement $'000	Change in fair value $'000	Reclass $'000	Other $'000	Closing balance 31 Dec 2018 $'000
Current Interest bearing loans and borrowing	49,905	(50,649)	22,410	-	255,657	2,244	**279,566**
Non-current interest bearing loans and borrowings	253,589	91,668	-	-	(255,657)	2,588	**92,188**
Derivative liability	13,806	-	-	(24,643)		-	**(10,837)**

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3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 21: Reconciliation of Cash Flows (continued)

	Opening balance 1 Jan 2017 $'000	Cash flows $'000	Foreign exchange movement $'000	Change in fair value $'000	Reclass $'000	Other $'000	Closing balance 31 Dec 2017 $'000
Current Interest bearing loans and borrowing	-	-	-	-	49,628	277	**49,905**
Non-current interest bearing loans and borrowings	410,649	(111,204)	11,013	-	(49,628)	(7,241)	**253,589**
Dividends payable	22,950	(12,846)	-	-	-	(10,104)	**-**
Derivative liability	16,351	-	-	(2,545)	-	-	**13,806**

4. GROUP STRUCTURE

Note 22: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy set out in Note 33(b).

Name of Entity	Country of incorporation	Class of Shares/ Units	2018 %	2017 %
Subsidiaries of Company				
Grasshoppers Early Learning Centres Pty Ltd	Australia	Ordinary	100	100
Togalog Pty Ltd	Australia	Ordinary	100	100
RBWOL Holding Pty Ltd**	Australia	Ordinary	100	100
Ramsay Bourne Holdings Pty Ltd**	Australia	Ordinary	100	100
Bourne Learning Pty Ltd	Australia	Ordinary	100	100
Ramsay Bourne Acquisitions (No.1) Pty Ltd	Australia	Ordinary	100	100
Ramsay Bourne Acquisitions (No.2) Pty Ltd**	Australia	Ordinary	100	100
RBL No. 1 Pty Ltd	Australia	Ordinary	100	100
Ramsay Bourne Licences Pty Ltd	Australia	Ordinary	100	100
Sydney Cove Children's Centre Pty Ltd**	Australia	Ordinary	100	100
Sydney Cove Children's Centre B Pty Ltd**	Australia	Ordinary	100	100
Sydney Cove Children's Centre C Pty Ltd**	Australia	Ordinary	100	100
Sydney Cove Property Holdings Pty Ltd**	Australia	Ordinary	100	100
World Of Learning Pty Ltd**	Australia	Ordinary	100	100
World Of Learning Acquisitions (No.1) Pty Ltd	Australia	Ordinary	100	100
World Of Learning Acquisitions Pty Ltd	Australia	Ordinary	100	100
World Of Learning Licences Pty Ltd	Australia	Ordinary	100	100
G8 KP Pty Ltd	Australia	Ordinary	100	100
Sterling Early Education Finance Pty Ltd**	Australia	Ordinary	100	100
Sterling Early Education Holdings Pty Ltd**	Australia	Ordinary	100	100
Woodland Education Operations Pty Ltd**	Australia	Ordinary	100	100
Kindy Kids Operations Pty Ltd**	Australia	Ordinary	100	100
CG Operations Pty Ltd **	Australia	Ordinary	100	100
Kool Kids Operations Pty Ltd **	Australia	Ordinary	100	100
North Shore Childcare Pty Ltd**	Australia	Ordinary	100	100
Ooorama Operations Pty Ltd**	Australia	Ordinary	100	100

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4. GROUP STRUCTURE

Note 22: Subsidiaries (continued)

Name of Entity	Country of incorporation	Class of Shares/ Units	2018 %	2017 %
Jacaranda Operations Pty Ltd**	Australia	Ordinary	100	100
Huggy Bear Operations Pty Ltd**	Australia	Ordinary	100	100
Jellybeans Operations Pty Ltd**	Australia	Ordinary	100	100
Jellybeans Attadale (Pty Ltd)**	Australia	Ordinary	100	100
Jane's Place Operations Pty Ltd**	Australia	Ordinary	100	100
Jolimont Private Education Pty Ltd**	Australia	Ordinary	100	100
WTTS Operations Pty Ltd**	Australia	Ordinary	100	100
BUI Investments Pty Ltd**	Australia	Ordinary	100	100
Derafi Pty Ltd**	Australia	Ordinary	100	100
Alfoom Investments Pty Ltd**	Australia	Ordinary	100	100
Shemlex Pty Ltd**	Australia	Ordinary	100	100
Kindy Kids Village Pty Ltd**	Australia	Ordinary	100	100
Kindy Kids Long Daycare and Preschool Pty Ltd**	Australia	Ordinary	100	100
Three Little Pigs Pty Ltd**	Australia	Ordinary	100	100
A.C.N. 078 042 378 Pty Ltd**	Australia	Ordinary	100	100
ES5 Pty Ltd**	Australia	Ordinary	100	100
Kindy Patch Unit Trust	Australia	Ordinary	100	100
Sydney Cove Children's Centre Unit Trust	Australia	Ordinary	100	100
Sydney Cove Children's Centre Unit Trust B	Australia	Ordinary	100	100
Shemlex Investment Unit Trust	Australia	Ordinary	100	100
Shemlex Investments Freehold Unit Trust No 1	Australia	Ordinary	100	100
Morley Perth Unit Trust	Australia	Ordinary	100	100
Kindy Kids Village Trust	Australia	Ordinary	100	100
Kindy Kids Long Daycare and Preschool Trust	Australia	Ordinary	100	100
Adelaide Montessori Pty Ltd**	Australia	Ordinary	100	100
GW Concord Pty Ltd**	Australia	Ordinary	100	100
GW Chatswood Pty Ltd**	Australia	Ordinary	100	100
GW Macquarie Park Pty Ltd**	Australia	Ordinary	100	100
GW Brookvale Pty Ltd**	Australia	Ordinary	100	100
GW Bronte Pty Ltd**	Australia	Ordinary	100	100
GW Katoomba Pty Ltd**	Australia	Ordinary	100	100
GW Gladesville Pty Ltd**	Australia	Ordinary	100	100
GW Frenchs Forest Pty Ltd**	Australia	Ordinary	100	100
GW Prep Holdings Pty Ltd**	Australia	Ordinary	100	100
Lane Cove CCC Unit Trust	Australia	Ordinary	100	100
Lane Cove CCC Pty Ltd**	Australia	Ordinary	100	100
Waterloo CCC Unit Trust	Australia	Ordinary	100	100
Waterloo CCC Pty Ltd**	Australia	Ordinary	100	100
GW Chatswood Unit Trust	Australia	Ordinary	100	100
Homebush CCC Pty Ltd	Australia	Ordinary	100	-
Homebush CCC Unit Trust	Australia	Ordinary	100	-
G8 Education Singapore Pte. Ltd.	Singapore	Ordinary	100	100
Cherie Hearts Corporate Pte. Ltd.	Singapore	Ordinary	100	100
Cherie Hearts Holdings Pte. Ltd.	Singapore	Ordinary	100	100
Cherie Hearts @ Gombak Pte. Ltd.	Singapore	Ordinary	100	100
Bright Juniors Pte. Ltd.	Singapore	Ordinary	100	100
Our Juniors Global Schoolhouse Pte. Ltd.	Singapore	Ordinary	100	100

* The proportion of ownership interest is equal to the proportion of voting power held.

** These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with ASIC Legislative Instrument 2016/785 issued by the Australian Securities and Investment Commission. For further information please refer to note 24.

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4. GROUP STRUCTURE

Note 23: Parent Entity Disclosures

As at, and throughout the financial year ended 31 December 2018 the parent entity of the Group was G8 Education.

	2018 $'000	2017 $'000
Result of parent entity		
Profit for the year after tax	71,460	81,035
Other comprehensive income	4,404	1,898
Total comprehensive income for the year	**75,864**	**82,933**
Financial position of parent entity at year end		
Current assets	96,420	80,055
Non-current assets	1,281,282	1,176,690
Total assets	**1,377,702**	**1,256,745**
Current liabilities	368,735	156,633
Non-current liabilities	123,400	238,913
Total liabilities	**492,135**	**395,546**
Total equity of parent entity comprising of:		
Contributed equity	893,567	876,394
Reserves	48,825	39,005
Accumulated losses	(56,825)	(54,200)
Total equity	**885,567**	**861,199**

Parent entity contingencies

Refer to note 26 for parent entity contingent liabilities.

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note 24.

Accounting policy

The financial information for the parent entity, G8 Education, has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of G8 Education.

(ii) Tax consolidation legislation refer to note 5.

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4. GROUP STRUCTURE

Note 24: Deed of Cross Guarantee

All subsidiaries identified in Note 22 as having been granted relief from the requirement to prepare a Financial Report and Directors' Report Under ASIC Legislative Instrument 2016/785 (As Amended) issued by the Australian Securities and Investments Commission are considered to be in the closed group.

Below is a consolidated statement of comprehensive income for the year ended 31 December 2018 of the closed group:

(a) Consolidated statements of comprehensive income

	2018 $'000	2017 $'000
Continuing operations		
Revenue	835,221	779,489
Other income	6,640	809
Total revenue	**841,861**	**780,298**
Expenses		
Employment costs	(497,877)	(435,947)
Occupancy	(106,001)	(94,810)
Direct costs of providing services	(59,906)	(56,532)
Depreciation	(16,177)	(13,566)
Other expenses	(29,711)	(27,123)
Finance costs	(28,973)	(34,144)
Total expenses	**(738,645)**	**(662,122)**
Profit before income tax	**103,216**	**118,176**
Income tax expense	(31,756)	(37,139)
Profit for the year	**71,460**	**81,037**
Effective portion of changes in fair value of cash flow hedges	1,626	1,921
Total comprehensive income for the year	**73,086**	**82,958**

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(b) Balance Sheet

Set out below is a consolidated balance sheet as at 31 December 2018 of the closed group.

	2018 $'000	2017 $'000
Current assets		
Cash and cash equivalents	53,132	46,974
Trade and other receivables	35,758	30,005
Other current assets	33,404	31,693
Derivative financial instruments	10,837	-
Current tax asset	-	313
Total current assets	**133,131**	**108,985**
Non-current assets		
Investments in extended Group	139	139
Property, plant and equipment	91,173	63,193
Deferred tax assets	17,856	16,220
Intangible assets	1,100,764	1,057,040
Other non-current assets	26,784	33,509
Derivative financial instruments	-	622
Total non-current assets	**1,236,716**	**1,170,723**
Total assets	**1,369,847**	**1,279,708**
Current liabilities		
Trade and other payables	67,386	62,134
Contract liabilities	7,490	8,174
Borrowings	279,566	49,905
Provisions	29,875	28,425
Total current liabilities	**384,317**	**148,638**
Non-current liabilities		
Other payables	5,260	1,067
Borrowings	92,188	253,589
Provisions	8,935	8,321
Derivative financial instruments	-	13,806
Total non-current liabilities	**106,383**	**276,783**
Total liabilities	**490,700**	**425,421**
Net assets	**879,147**	**854,287**
Equity		
Contributed equity	893,567	876,394
Reserves	48,826	42,224
Retained earnings	(63,246)	(64,331)
Total equity	**879,147**	**854,287**

5. UNRECOGNISED ITEMS

Note 25: Commitments

(a) Capital commitments

There is no capital expenditure unconditionally contracted for at the reporting date but not recognised as a liability. The Group has contracted arrangements that give the Group the ability to acquire centres conditional on various hurdles and criteria that the vendors must meet.

(b) Lease commitments: Group as lessee

(i) Non-cancellable operating leases for premises and vehicles

The Group leases various child care facilities under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are re-negotiated.

	Consolidated	
	2018 $'000	2017 $'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities:		
Payable:		
Within one year	101,666	83,153
Later than one year but no later than five years	333,620	327,047
Later than five years	318,764	218,878
	754,050	**629,078**
Representing:		
Non-cancellable operating leases	754,050	629,078

(ii) Finance Leases

The Group had no finance leases during 2018 or 2017.

Accounting policy

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the term of the lease.

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5. UNRECOGNISED ITEMS

Note 26: Contingencies

(a) Contingent liabilities

The Group had no contingent liabilities as at 31 December 2018 (2017: Nil).

5. UNRECOGNISED ITEMS

Note 27: Events occurring after the balance sheet date

The following material matters have taken place subsequent to year end:

- 52,333 performance rights were issued on 30 January 2019 pursuant to the G8 Executive Incentive Plan.
- 23,550 performance rights were cancelled on 22 February 2019 pursuant to the G8 Executive Incentive Plan.
- The Board declared a 8.0c fully franked dividend at the Board meeting which will be the final dividend for the year.
- Post 31 December 2018, the Group completed the acquisition of 3 centres for $4.7m and opened 6 centres that were acquired late in 2018. The initial accounting in respect of the acquisitions has not yet been completed as completion accounts have yet to be finalised.

6. OTHER

Note 28: Key Management Personnel Disclosures

(a) Directors

The following persons were directors of G8 Education during the financial year:

(i) Chairperson –Independent Non-Executive

- M Johnson

(ii) Executive Directors

- G Carroll

(iii) Independent Non-Executive Directors

- B Bailison
- S Forrester
- D Foster
- J Cogin
- M Zabel

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(b) Other Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position
· S Williams	Chief Financial Officer
· J Ball	General Manager Operations

(c) Key Management Personnel compensation

	Consolidated	
	2018 $'000	2017 $'000
Short term employee benefits	1,651	2,744
Post employment benefits	61	137
Share based payments*	-	(97)
Dividend payments on escrow shares	-	80
Termination payments	-	432
	1,712	**3,296**

*Includes the write back of share based payments expense due to vesting conditions not being met

The relevant information on detailed remuneration disclosures can be found in the Remuneration Report on pages 28 to 46.

(d) Equity instrument disclosures relating to Key Management Personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Refer to note 29 for details of options issued to Key Management Personnel.

(ii) Option holdings

Refer to note 29 for details of options issued to Key Management Personnel.

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each Director of G8 Education and other Key Management Personnel of the Group, including their associates, are set out below. There were no shares issued during the reporting year as compensation.

6. OTHER

Note 28: Key Management Personnel Disclosures (continued)

2018	Balance at the start of the year	Shares to be cancelled under limited recourse loans disclosed as share options	Other changes during the year	Balance at the end of the year
Directors				
Ordinary Shares				
M Johnson	30,000	-	30,000	60,000
B Bailison	13,000	-	12,000	25,000
S Forrester	39,528	-	12,441	51,969
D Foster	14,587	-	8,389	22,976
G Carroll	100,000	-	10,000	110,000
M Zabel	-	-	15,000	15,000
J Cogin	-	-	19,000	19,000
KMP				
Ordinary Shares				
S Williams	12,500	-	12,500	25,000
J Ball	-	-	-	-

2017	Balance at the start of the year	Shares to be cancelled under limited recourse loans disclosed as share options	Other changes during the year	Balance at the end of the year
Directors				
Ordinary Shares				
M Johnson	25,000	-	5,000	30,000
B Bailison	-	-	13,000	13,000
S Forrester	15,423	-	24,105	39,528
D Foster	14,587	-	-	14,587
G Carroll	-	-	100,000	100,000
C Scott (resigned 29 May 2017)	333,333	(333,333)	-	-
M Reynolds (resigned 31 August 2017)	24,195	-	(24,195)	-
KMP				
Ordinary Shares				
S Williams	-	-	12,500	12,500
T King (resigned 12 April 2017)	631,329		(631,329)	-
A Perriam (resigned 10 April 2017)	40,733	-	(40,733)	-

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6. OTHER

Note 29: Share-based payments

Expenses arising from share-based transactions

Expenses arising from share-based payment transactions recognised during the year as part of employee benefit expenses were as follows:

	Consolidated	
	2018 $'000	2017 $'000
Share-based payment expense on shares issued to KMP	-	(108)

No expense has been recorded during the year as assessment on the probability of performance rights vesting is nil.

G8 Education Executive Incentive Plan (GEIP)

Shareholders approved the GEIP at the Annual General Meeting (AGM) in May 2017. The Company has established the GEIP to assist the retention and motivation of executives of G8 Education (Participants). It is intended that the Performance Rights will enable the Company to retain and attract the skilled and experienced executives and provide them with the motivation to enhance the success of the Company.

Under the Performance Rights, rights may be offered to Participants selected by the Board. Unless otherwise determined by the Board, no payment is required for the grant of rights under the GEIP. Subject to any adjustment in the event of a bonus issue, each right is an option to subscribe for one Share. Upon the exercise of a right by a Participant, each Share issued will rank equally with other Shares of the Company.

Performance Rights issued under the plan may not be transferred unless approved by the Board. The table below summarises rights granted under the plan.

Grant date	Balance at the start of the year (Number)	Granted during the year (Number)	Exercised during the year (Number)	Forfeited during the year (Number)	Balance at the end of the year (Number)	Unvested at the end of the year (Number)
20 July 2017	238,063	-	-	(85,677)	152,386	152,386
6 October 2017	53,629	-	-	-	53,629	53,629
22 January 2018	-	50,359	-	-	50,359	50,359
20 July 2018	-	438,609	-	-	438,609	438,609
Total	**291,692**	**488,968**	**-**	**(85,677)**	**694,983**	**694,983**

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Unissued ordinary shares of G8 Education under the GEIP at the date of this report are set out in the table below.

Grant date	Vesting date	Value of performance right at grant date ($)	Number of performance rights	Expiry date
20 July 2017	1 March 2020	3.19	152,386	30 May 2020
6 October 2017	1 March 2020	3.70	53,629	30 May 2020
22 January 2018	1 March 2020	3.82	50,359	30 May 2020
20 July 2018	1 March 2021	2.39	438,609	30 May 2021
Total			**694,983**	

Valuation of instruments issued

Value of the financial benefit

The table lists the inputs to the models used

	Tranche 1 20-Jul-17	Tranche 2 6-Oct-17	Tranche 3 22-Jan-18	Tranche 4 20-Jul-18
Share price on grant date	$3.77	$3.83	$3.82	$2.87
Share price volatility	30%	30%	30%	30%
Risk free rate	2.31%	2.17%	2.04%	2.09%
Time to maturity	2.62 years	2.57 years	2.11 years	2.62 years
Annual dividend yield	6.37%	6.27%	5.45%	7.27%
Model used	Black Scholes	Black Scholes	Black Scholes	Black Scholes

Accounting policy

Share-based compensation benefits are provided to certain employees via the GEIP and the Executive Share Plan (discontinued February 2017).

The fair value of options and performance rights are granted under the GEIP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

For share options and performance rights, the fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sale growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimate of the number of options and performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon exercise of the options and performance rights, the balance of the share-based payments reserve relating to those options remains in the share based payments reserve.

6. OTHER

Note 30: Remuneration of Auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group:

	Consolidated	
	2018	2017
	$	$
1. Audit services		
Ernst & Young		
Audit and review of financial reports	215,000	215,000
Other assurance services	280,000	127,800
2. Non-audit services		
Ernst & Young – other advisory services	94,198	145,300
Total remuneration for services	**589,198**	**488,100**

6. OTHER

Note 31: Related Party Transactions

(a) Parent entity

The parent entity within the Group is G8 Education.

(b) Subsidiaries

Interests in subsidiaries are set out in note 22.

(c) Key Management Personnel

For details of transactions that Key Management Personnel and their related entities had with the Group during the year refer note 28.

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6. OTHER

Note 32: Other significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the consolidated entity consisting of G8 Education and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards (AASB), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The Company is a listed for profit public Company, incorporated in Australia and operating in Australia and Singapore. The Company's principal activities are operating child care centres and ownership of franchised child care centres.

The financial statements were authorised for issue on 23 February 2019.

Compliance with IFRS

Compliance with AASB ensures that the financial report of G8 Education and the Group complies with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention as modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities (including derivative instruments).

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of G8 Education ("Company" or "parent entity") as at 31 December 2018 and the results of all subsidiaries for the year then ended.

G8 Education and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Goods and Services Tax (GST)

Revenues, expenses and assets and liabilities are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

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Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(d) Rounding Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191, relating to the "rounding off" of amounts in the financial reports. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

(e) Going concern

The Group has recognised a net profit after tax of $71.8m for the year ended 31 December 2018 and as at that date, current liabilities exceed current assets by $269.7m. Management expect the working capital shortfall will be met out of operating cash flows or from finance facilities. The Group have sufficient facilities in place to repay the $270m SGD bonds when due in May 2019.

The Directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate, and that assets are likely to be realised, and liabilities are likely to be discharged, at the amounts recognised in the financial statements in the ordinary course of business.

(f) Reserves

(i) Share-based payments

The share-based payments reserve is used to recognise the expensing of the grant date fair value of options issued to employees but not exercised.

(ii) Translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 15 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the consolidated income statement when the net investment is disposed of.

(iii) Hedging

The hedging reserve is used to record gains or losses on hedging instruments in cash flow hedges that are recognised in other comprehensive income, as described in note 18. Amounts are reclassified to the consolidated income statement when the associated hedge transaction affects the consolidated income statement.

(iv) Profits

The profits reserve comprises the transfer of net profit for the current and previous years and characterises profits available for distribution as dividends in future years. Dividends amounting to $65.3 million (2017: $77.5m) were distributed from the profits reserve during the year.

The amount transferred to profits reserve comprises the transfer from net profit for the current year for profit making entities within the Group and characterises profits available for distribution as dividends in the future years.

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(g) New accounting standards and interpretations for application in current and future periods

PRONOUNCEMENTS	AASB 16 Leases
NATURE OF THE CHANGE IN ACCOUNTING POLICY	AASB 16 was issued in January 2016 and it replaces AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation-115 Operating Leases-Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). From transition date, instead of rental occupancy expenses, lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset within the consolidated income statement. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.
EFFECTIVE DATE	Annual reporting period beginning on or after 1 January 2019
EXPECTED IMPACT ON THE FINANCIAL STATEMENTS	The group will apply the standard from its mandatory adoption date of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value. The Group continues to work through the estimated impact in relation to the right-of-use assets and lease liabilities based upon the available transition options. The transition options include either (i) measuring the right-of-use assets as if the new rules had always been applied, or (ii) measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). On this basis, the Group cannot disclose the impact on net assets, net current assets, nor the individual line items within the consolidated income statement but expects the majority of operating leases as disclosed in Note 25 to be recorded on balance sheet. The Group expects to fully report and quantify the impacts of adoption of AASB16 in the half year ending 30 June 2019.

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PRONOUNCEMENTS	**AASB 9 Financial Instruments**
	AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2009). AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transitional Disclosures. AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments.
NATURE	**AASB 2014-1 Amendments to Australian Accounting Standards.**
OF THE CHANGE IN ACCOUNTING POLICY	AASB 9 replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 contains three principal classification categories for financial assets: Amortised Cost, Fair Value Through Other Comprehensive Income (FVOCI), and Fair Value Through Profit and Loss (FVTPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables. Debt financial instruments are subsequently measured at amortised cost, FVOCI or FVTPL. The classification is based upon two criteria: The Group's business model for managing the assets; Whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding ('the SPPI criterion').
EFFECTIVE DATE	**Annual reporting periods beginning on or after 1 January 2018**
EXPECTED IMPACT ON THE FINANCIAL STATEMENTS	From 1 January 2018, the group applied the full retrospective approach. The classification and measurement of the Group's financial assets are as follows: Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold financial assets to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Cash and cash equivalents and Trade & other receivables. Financial assets at FVTPL comprise derivative instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. This category includes the Group's Foreign exchange option. The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments met the SPPI criterion was made based on the facts and circumstances as at initial recognition of the assets.

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The new classification requirements of the standard did not have a material impact on the Group's existing financial assets, being cash and cash equivalents, trade and other receivables, deposits on acquisition or derivative financial instruments.

At initial recognition, the Group measures a financial asset at its fair value. Measurement of cash and cash equivalents and trade and other receivables are at amortised cost. Deposits on acquisition are at fair value whereas they were recognised at amortised cost in the prior years.

AASB 9 requires financial liabilities to be measured on the same basis as AASB 139, with the only change being gains or losses on financial liabilities designated at inception to be measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.

The accounting for the Group's financial liabilities remains largely the same as it was under AASB 139. All loans and borrowings are initially recognised at fair value, being the amount received less attributable transaction costs. After initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss over the period of the borrowings on an effective interest basis.

The Group recognises gains or losses on financial liabilities, designated at inception to be measured at fair value, in profit or loss. The Group has had no material change in the credit risk of these financial liabilities during the period.

Trade and other payables are recognised for amounts to be paid for goods or services received. Trade payables are settled on terms aligned with the normal commercial terms.

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking 'expected credit loss' (ECL) model and requires the Group to record an allowance for ECLs for all debt financial assets not held at FVTPL including contract assets recognised in accordance with AASB 15. To assess for any expected credit losses under AASB 9, there is consideration around the probability of default upon initial recognition of the asset including an expectation of any security held.

For trade and other receivables, the Group has applied the standard's simplified approach whereby the loss allowance is measured at an amount equal to lifetime expected credit losses. The Group assesses expected credit losses in a way that reflects:

An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

The Group has established a calculation that is based on the Group's historic credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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The Group applied the ECL model. On transition, there have been no adjustments to the provision. Due to the short-term nature of Trade and Other receivables, and the credit profile of G8 Education's customers who mainly prepay childcare fees or have debtors settled by government subsidies, there was no material change to the total amount of provisioning.

AASB 9 allows the Group to choose to apply the new hedge accounting requirements under the standard upon initial application or continue to apply the requirements of AASB 139. The Group has chosen to apply the new requirements of AASB 9.

The Group entered a cross currency swap to hedge against foreign exchange exposure on SGD borrowings whereby foreign exchange risk is mitigated by fair value movements being fully hedged.

The swap has been dual designated as a fair value hedge relating to the principal repayment of SGD denominated borrowings (senior unsecured notes under G8 Education's SGD$600m multicurrency issuance program) and as a cash flow hedge for the coupon payments associated with the Series 003 notes.

On adoption of AASB 9, the Group elected to separately account for the currency basis as a cost of hedging. Consequently, currency basis has been recognised in OCI and accumulated in a cost of hedging reserve as a separate component within equity and accounted for subsequently as gains and losses accumulated in the cash flow hedge reserve. Upon adoption $0.6m was transferred from retained earnings to a cost of hedging reserve, to separately recognise the cost of hedging.

The types of hedge accounting relationships that the Group currently designates meet the requirements of AASB 9 and are aligned with the Group's risk management strategy and objective.

PRONOUNCEMENTS

AASB 15 Revenue from contracts with customers

NATURE OF THE CHANGE IN ACCOUNTING POLICY

AASB 15 introduces a five-step process for revenue recognition with the core principle of the new standard being for entities to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

AASB 15 also requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improves guidance for multiple-element arrangements.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of discounts, refunds, rebates and amounts collected on behalf of third parties.

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EFFECTIVE DATE	Annual reporting periods beginning on or after 1 January 2018
EXPECTED IMPACT ON THE FINANCIAL STATEMENTS	(i) Revenue from child care centres (refer note 2) Fees paid by families and/or the Australian Government (Child Care Benefit and Child Care Tax Rebate) are recognised as and when a child attends a child care service, as this is when the customer has consumed the benefits of this service (satisfies its performance obligation). Revenue received in advance from parents and guardians or government is recognised as deferred income and classified as a current liability (i.e. contract liability for performance obligations yet to be satisfied). (ii) Management fee income (refer note 2) Fees paid by franchisees are recognised in accordance with the franchise agreement and once the operational support service has been performed, as this is when the Group transfers control of this service (satisfies its performance obligation) to the franchisee. The Group elected to adopt the full retrospective approach upon adoption of AASB 15. As there was no change to the measurement or timing of the recognition (i.e. based on when the performance obligation is satisfied) there has been no impact to the Group upon adoption of the new standard and therefore no changes to comparatives were required. The only change has been to the presentation of the balance sheet for contract liabilities and this line item has been reclassified from trade and other payables. Any new agreements for the provision of goods and services have been assessed as they arise throughout the full year ending 31 December 2018.

DIRECTORS' DECLARATION

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In the Directors' opinion:

(a) the financial statements and notes set out on pages 48 to 110 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial year ended on that date;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 24 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 24.

Note 32(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



Gary Carroll
Director
23 February 2019

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Independent Auditor's Report to the Members of G8 Education Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of G8 Education Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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Impairment Assessment of Goodwill

Why significant	How our audit addressed the key audit matter
The Group is required under Australian Accounting Standard - AASB 136 '*Impairment of* assets' to perform an annual impairment test of the carrying value of goodwill. The Group comprises one operating segment, which is the cash generating unit for Goodwill assessment purposes. The carrying value is supported by a value in use cash flow forecast. The cash flow forecast is based on assumptions as to the Group's future operating and financial performance. These include judgements and estimates relating to occupancy, future revenues, anticipated costs, growth rates expected, and the discount rate applied. As such, impairment testing of goodwill was considered to be a key audit matter. The Group's disclosures are included in note 14 to the financial statements, which includes the key assumptions applied by the Group.	In obtaining sufficient audit evidence we: ► Agreed the cash flow forecasts to Board approved budgets; ► Evaluated the Group's identification of the CGU and tested the mathematical accuracy of the impairment model; ► Assessed future cash flow assumptions through comparison with current trading performance, externally derived data (where applicable) and other evidence and enquiry with the Group in respect of key growth and trading assumptions; ► Assessed other key assumptions including the discount rate and long term growth rate with involvement from EY valuation specialists; ► Considered the market capitalisation of the Group relevant to the recorded net asset amount at 31 December 2018; ► Performed sensitivity analyses over the model in relation to key assumptions including occupancy, growth rates and discount rates; and ► Considered the adequacy of the Intangible Assets disclosure in note 14 to the financial statements.

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Acquisition Accounting

Why significant	How our audit addressed the key audit matter
The Group acquired a number of childcare centres during 2018, including under Developer Agreements. Acquisition accounting requires judgment in identifying the point at which the Group obtains control of the childcare centre, assessing the fair value of the assets and liabilities acquired and measuring the fair value of contingent consideration payable to the vendors. The fair value of contingent consideration is determined based on estimates and assumptions about the future performance of the acquired business. Acquisition costs such as broker costs are often directly paid by the vendor and may require judgement to estimate the amount paid. Given the level of judgment in estimating the fair value as well as the contingent consideration that may be paid by G8, this was considered to be a key audit matter. Refer to note 13 to the financial statements for disclosure relating to acquisition accounting.	In obtaining sufficient audit evidence, we: ▸ Read the terms and conditions of the developer and sale agreements and assessed the point at which the Group obtained control of the childcare centres; ▸ Evaluated the methodology applied to identify assets and liabilities (including contingent consideration) acquired and measure their respective fair values; ▸ Agreed key items to underlying data including contracts and settlement statements; ▸ Assessed the future earnings assumptions impacting the contingent consideration, comparing forecast performance to current and historical trading results; ▸ Assessed the amount and accounting treatment of acquisition costs; and ▸ Considered the adequacy of the business combinations disclosure in note 13 to the financial statements.

Revenue Recognition

Why significant	How our audit addressed the key audit matter
Revenue is recognised by the Group when the underlying childcare service has been provided. Revenue from childcare services and related grant revenue for the Group for the financial year was $849.3 million. Customers are generally invoiced in advance and adjustments made through processing of Child Care Subsidy by the Department of Human Services. Accordingly, there is a risk that revenue is recognised in the incorrect period. The new accounting standard AASB15 *'Revenue from contracts with customers'* was applicable to the Group from 1 January 2018. The Group determined there was no material impact on adoption of the new standard.	Our audit evaluated revenue recognised in accordance with AASB15. To do this, we: ▸ Assessed the Group's identification of the performance obligations and revenue recognition under AASB15; ▸ Assessed the Group's design and operating effectiveness of key controls over the recognition of revenue; ▸ Used computer assisted auditing techniques to compare revenue recognised to cash receipts and investigated differences; ▸ Assessed the completeness of the deferred revenue balance by testing parent fees in advance bookings;

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Why significant	How our audit addressed the key audit matter
The Group focuses on revenue as a key performance measure for executives and it is also a key parameter by which the performance of the Group is measured. As a result, we consider revenue to be a key audit matter. Refer to note 2 to the financial statements for disclosure relating to revenue.	► Tested reconciliations relating to revenue recognised and agreed this to support for Child Care Subsidy; ► Assessed journal entries relating to revenue, in particular those near the year end; and ► Assessed the adequacy of the Group's disclosures in relation to revenue and related accounting policies.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 45 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of G8 Education Limited for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ric Roach
Partner
Brisbane
23 February 2019

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SHAREHOLDER INFORMATION

The total issued capital of the Company as at 31 December 2018 and as at the date of this annual report is 455,379,824.

The Shareholder information set out below was applicable as at 12 February 2019.

(a) Distribution of equity securities

Analysis of number of equity security holders by size of holding is listed below.

	Class of equity security		
	Shares	Holders	Options
100,001 and Over	335,682,171	98	73.72%
10,001 – 100,000	61,427,637	2,788	13.49%
5,001 – 10,000	27,726,189	3,698	6.09%
1,001 – 5,000	27,297,759	10,022	5.99%
1 – 1,000	3,246,068	6,766	0.71%
	455,379,824	**23,372**	**100.00%**

There were 1,023 holders of less than a marketable parcel of ordinary shares.

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(b) Quoted equity security holders

Twenty largest quoted equity security holders.

Name	Quoted ordinary shares held	Percentage of issued shares
HSBC Custody Nominees (Australia) Limited	103,087,514	22.64
J P Morgan Nominees Australia Pty Limited	67,289,625	14.78
Citicorp Nominees Pty Limited	52,625,448	11.56
National Nominees Limited	29,068,116	6.38
BNP Paribas Nominees Pty Ltd	13,261,201	2.91
BNP Paribas Noms Pty Ltd	12,874,513	2.83
Geosine Pty Ltd	6,003,260	1.32
BNP Paribas Nominees Pty Ltd	4,991,977	1.10
HSBC Custody Nominees (Australia) Limited	3,745,782	0.82
Citicorp Nominees Pty Limited	3,094,793	0.68
Geosine Pty Ltd	3,036,000	0.67
Investorlink Securities Limited	2,651,071	0.58
RAP Investments Pty Limited	2,600,000	0.57
HSBC Custody Nominees (Australia) Limited	1,818,472	0.40
HSBC Custody Nominees (Australia) Limited	1,647,212	0.36
Mr Christopher Douglas Passfield & Mrs Rhonda Passfield	1,500,000	0.33
Mr Craig Graeme Chapman	1,400,000	0.31
Mr Riccardo Pisaturo	1,400,000	0.31
Viss Holdings Pty Ltd	1,170,683	0.26
National Nominees Limited	829,811	0.18
	314,095,478	**68,98**

(c) Substantial holders]

Substantial holders as at 12 February 2019 in the Company are set out below:

Ordinary Shares	Number held	Percentage
Legg Mason Asset Management Limited	31,033,741	6.84%
Sumitomo Mitsui Trust Holdings, Inc.	28,216,695	6.20%
The Vanguard Group, Inc.	22,776,392	5.002%

(d) Voting rights

The voting rights attached to each class of equity securities are set out below.

(i) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share will have one vote.

(ii) Options

There are no voting rights attached to the options.

(iii) Unquoted securities

There are no unquoted securities on issue.

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CORPORATE DIRECTORY



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Directors

M Johnson, Chairman

G Carroll, Managing Director

B Bailison, Non-Executive Director
S Forrester, Non-Executive Director
D Foster, Non-Executive Director
J Cogin, Non-Executive Director
M Zabel, Non-Executive Director

Company Secretary

T Wood

Principal registered business office in Australia

G8 Education Limited is a Company limited by shares, incorporated, and domiciled in Australia. It's registered office and principal place of business is:

159 Varsity Parade, Varsity Lakes
Telephone: 07 5581 5300
Facsimile: 07 5581 5311
www.g8education.edu.au

Share registry:

Link Market Services Limited
Level 21, 10 Eagle Street
Brisbane QLD 4000

Auditor:

Ernst & Young
111 Eagle Street,
Brisbane, QLD 4001

Lawyers:

Minter Ellison Gold Coast
165 Varsity Parade
Varsity Lakes QLD 4217

Securities exchange listing:

G8 Education Limited shares are listed on the Australian Securities Exchange under the ticker code GEM.



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G8 Education ltd

