ASX Announcement

G8 Education Limited
(ASX:GEM)

24 February 2020

The Manager
Market Announcements Office
Australian Securities Exchange

Dear Manager,

2019 ANNUAL REPORT

G8 Education Limited (ASX: GEM) encloses its 2019 Annual Report.

Yours faithfully

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Ends.

This document has been authorised for release by G8 Education Limited's Board of Directors.

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2019 ANNUAL REPORT

G8 Education ltd

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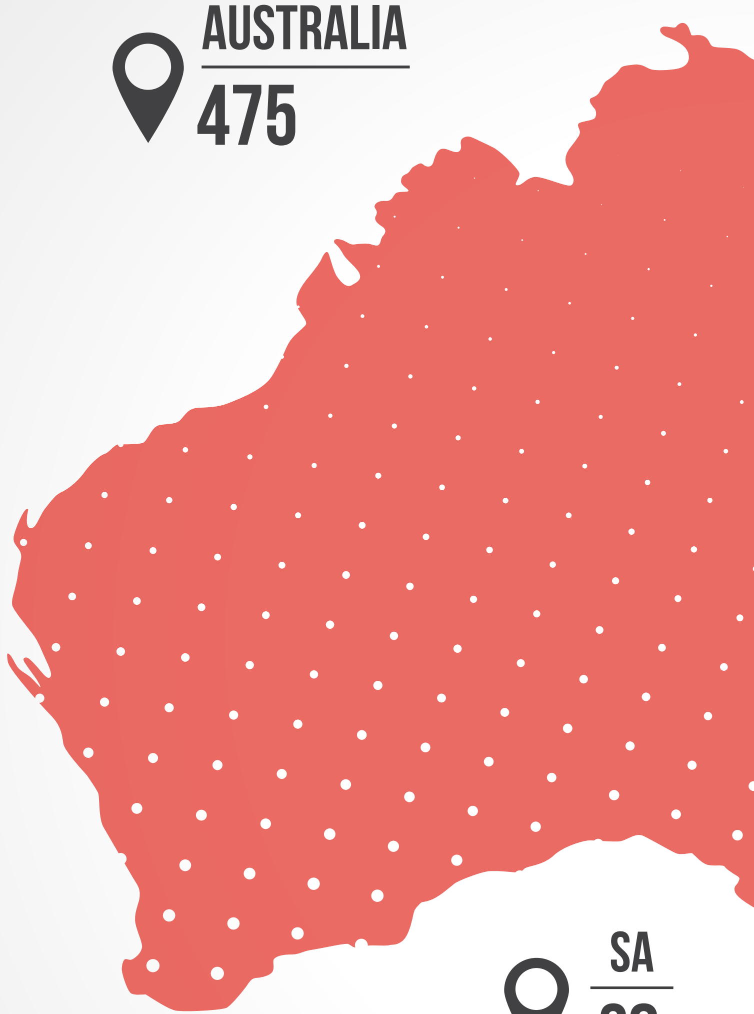

AUSTRALIA
475

WA
39

SA
28

SINGAPORE
17

CENTRES BY BRAND

Bambino's	11	Creative Garden Early Learning Centre	19	First Grammar Early Education Centre	27	headstart early learning centres	16
buggles early learning and kindy	11	Community Kids	82	Great Beginnings Early Education for Life	40	jellybeans Child Care & Kindy	11
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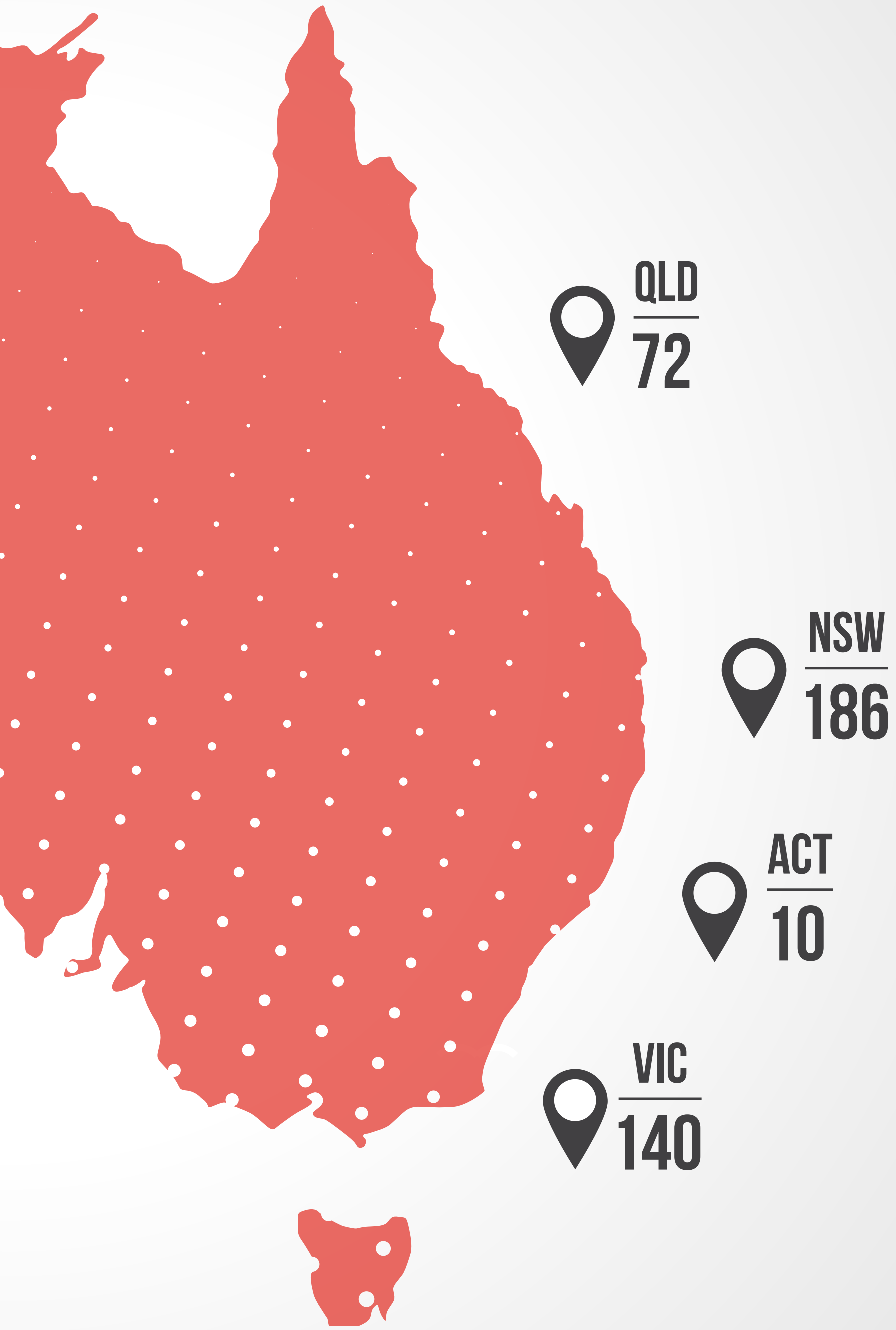

AUSTRALIA'S LARGEST

LISTED EARLY CHILDHOOD EDUCATION & CARE PROVIDER

CENTRES IN AUSTRALIA & SINGAPORE

492

LICENSED PLACES

40K+

EARLY CHILDHOOD EDUCATORS

9K+

CHILDREN PER WEEK

54K

Kindy Patch Kids	34	Pelicans Learning for Life	3	Sandcastles	6	Bright Juniors	10
Kool Kids early learning centres	10	Pelican Childcare Early Learning Centres	9	The Learning Sanctuary	19	Cherie Hearts	3
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CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Board, I am pleased to present the G8 Education Limited 2019 Annual Report.

Despite continuing challenges in the market and regulatory environment during 2019, we made significant progress on our pathway to build a sustainable business and lead our sector.

Last year, we forecast that market conditions would improve as construction activity slowed and the new child care subsidy drove increased demand. The market environment in the first half of the year was consistent with this forecast - however, an increase in construction activity in the fourth quarter of the year negatively impacted the competitive environment.

Our strategy remains focused on turning the scale we built between 2010 and 2016 into a source of competitive advantage. We're continuing to build strong foundations – improving centre quality and getting the right team in place – while also using our scale for good, to make a difference in the sector. 2019 represented a key step along this strategic pathway for us, with some important developments that have set us up well for future success.

We know that when a child has quality education and care early in life, it leads to better health, education and employment opportunities in the future. With this in mind, I am pleased to report that the quality of our services nationally continued to improve, and that G8 Education is outpacing the sector's improvement.

In last year's Report, we highlighted that quality is fundamental to being a centre of choice. As well as the safety of our team members and children, quality in this sense covers the physical environment, learning environments and programs, team capability and the experiences and interactions with children and families. I will outline the 2019 achievements in terms of safety and physical environment, while Gary Carroll will elaborate on our achievements in the other quality areas in his report.

In terms of physical environment, during 2019 we undertook 70 major refurbishments, at a total cost of $21 million. From a safety perspective, we made excellent progress both in terms of team member and child safety. As a result of a number of initiatives such as a national injury hotline and enhanced training and communications frameworks, the Group reduced its Lost Time Injury Frequency Rate for team members by more than 50%. From a child safety viewpoint, we leveraged our partnership with Bravehearts to jointly develop an enhanced training package which has been rolled out to a number of pilot centres prior to the full roll-out in 2020.

Our financial performance in 2019 reflected where we are on our pathway to growth. Positive occupancy growth – the first in four years – resulted in good growth in our organic earnings. This organic growth was offset by the investment in greenfield centres (those that have been opened in the last two years), as well as our investment in driving overall centre quality.

Our statutory earnings have been impacted by the introduction of the new accounting standard for leases (AASB 16). On an underlying basis, Net Profit After Tax was $76.4 million, down 4% on 2018. Cash flow generation continued to be strong, with $90.2 million in operating cash flows being generated (before AASB 16). Dividends for the year equated to 10.75c per share, bringing the full year dividend payout ratio to 70%.

Further improvements to the Group's capital base were made in 2019, with higher cost Singapore bond facilities being repaid and all debt facilities being consolidated into syndicated bank debt facilities. This provides increased capital with improved tenor and pricing and ensures the Group has the capital that is required to deliver its current strategy.

Looking forward to the year ahead, we expect the market environment to remain reasonably static. From a strategic perspective, 2020 will involve further investment in quality, balanced with programs that enable the Group to leverage its recently established capability to accelerate earnings in both greenfield and organic centres. We recognise that the pace of earnings growth needs to accelerate, and this strategy is aimed at doing that as well as providing a strong pathway to sustainable growth well into the future.

On behalf of the Board, I would like to take this opportunity to thank all of our shareholders, employees and families for their ongoing support in 2020.

Yours sincerely,

Mark Johnson

Chairman

MANAGING DIRECTOR'S REPORT

Dear Shareholders,

We've been on a journey over the past two years to become a strong and sustainable business. After years of acquisitions, we've been growing into ourselves – creating the processes and structure to make our scale an advantage. As we continue on our journey, we have a clear and compelling program to deliver over the next three years – encompassing people, experiences and centres.

Leveraging scale for sustainable growth

We take our responsibility as the leading for-profit early education provider in Australia seriously. We have over 9,000 team members educating and caring for more than 54,000 children in any given week – making us three times larger than our nearest for-profit competitor.

We believe that we have a real opportunity to use this scale advantage to reach the highest standards of early childhood education and care to our families – providing an unmatched breadth of offer, engaging experiences and quality centres.

Against a challenging market backdrop, 2019 was a year in which this strategy started to bear fruit. We delivered occupancy and earnings growth from our prior investments in quality, while continuing to drive future growth through investment in critical areas.

Family Experience Program

Based on in-depth research into the needs and wants of our parents and carers, we've been introducing new offerings that will resonate with and support them. For example, our 2018 Annual Report flagged the roll-out of a centralised customer engagement centre to better support families during the enquiry process. I am pleased to report that this initiative has been delivered in line with our targets, increasing our conversion of enquiries to tours while maintaining excellent levels of customer service.

Following the launch of our core child care management system in 2018, we delivered the parent and educator applications in 2019. As well as providing a more seamless communication experience for families, this system gives our national Early Education & Learning support team real-time visibility of the learning programs being developed by our centres for the first time. When combined with our connection platform, Workplace, this system provides our centres with access to a dedicated team of experienced early learning professionals and best-practice ideas from a 470+ centre network.

People Program

People are at the heart of our business. We know that excellent Centre Managers and an engaged team mean higher occupancy and a stronger business and above all make a difference in children's lives. The career pathways and training opportunities created by our scale mean we can attract, train and retain the best people. As part of a values-based, purpose-driven culture we are also committed to providing market-leading remuneration and reward and recognition programs.

During 2019, the Group made very good progress on a number of fronts. From a training and career pathway perspective, we rolled out a market-leading Bachelor Scholarship Program to support our diploma-qualified educators to study towards a Degree. This program has an initial cohort of more than 120 educators. We also piloted an innovative Centre Manager induction program with promising results, ahead of a full roll-out in 2020.

Such initiatives, together with Workplace and adjustments to Early Childhood Teacher ("ECT") wages in late 2018, have meant we have reduced turnover of Centre Manager roles to record low levels. Finally, we made good progress towards implementing our new people management platform, covering such aspects as recruitment, onboarding, rostering and performance management. The platform is on track to come online in Q2 of 2020, delivering improvements in both wage costs and process efficiencies.

Centre Network Performance

In 2019, we acquired a total of 15 early education centres, divested 25 centres and closed 16 centres in Australia. This brought our total number of centres as at 31 December 2019 to 475 in Australia and 17 in Singapore. These centres provide a total combined licenced capacity of more than 40,000 places. This has provided a source of material earnings growth in future years as the greenfield portfolio matures.

After a number of years of declining occupancy, we are pleased to report like-for-like occupancy grew approximately 1% in 2019. This occupancy growth translated to a 3% increase in Organic Earnings Before Interest and Tax ("EBIT") to $165.7 million. The investments made in greenfield centres and support office to drive quality offset this organic growth, with underlying Group EBIT of $132.5 million being in line with last year after accounting for license fees in 2018. The Group's ability to convert earnings before interest, tax, depreciation and amortisation ("EBITDA") to cash remained strong with 107% adjusted cash conversion in 2019, generating operating cash flows of $90.2 million (pre AASB 16).

Outlook for 2020

The market environment is expected to be similar to 2019, with continued supply offsetting the impact of the increased child care subsidy. Our pathway will continue to drive sustainable growth. Specific focus areas this year include our continuing centre refurbishment program, delivery of practice support programs and enhanced learning environments across the full network, and implementation of our new people management platform. We're also rolling out a network-wide safety program, because we know there's nothing more important than the children in our care. Such initiatives are aimed at driving occupancy in existing centres as well as positioning G8 Education as the employer of choice in the sector. Finally, we have the opportunity to continue to grow our network of early learning centres through acquisition and greenfield development.

Strategy plus execution

We are taking a highly disciplined approach to our strategy, bringing single-minded rigour into our execution. We are focusing on the things that really matter – that will lead to better centres, more engaged people and the best possible outcomes for our children and families.

For the first time, we have a dedicated, full-time team to support our centres to change. This team is rolling out change gradually and carefully, testing and learning as they go. We are also engaging with our people across the network in a more consistent and focused way. The full-time team will also enable us to harvest the earnings growth that comes from improved quality more quickly. We recognise that the journey to improved quality has not translated to substantial earnings growth to date, and our program is aimed at accelerating such growth while also delivering sustainable increases in quality.

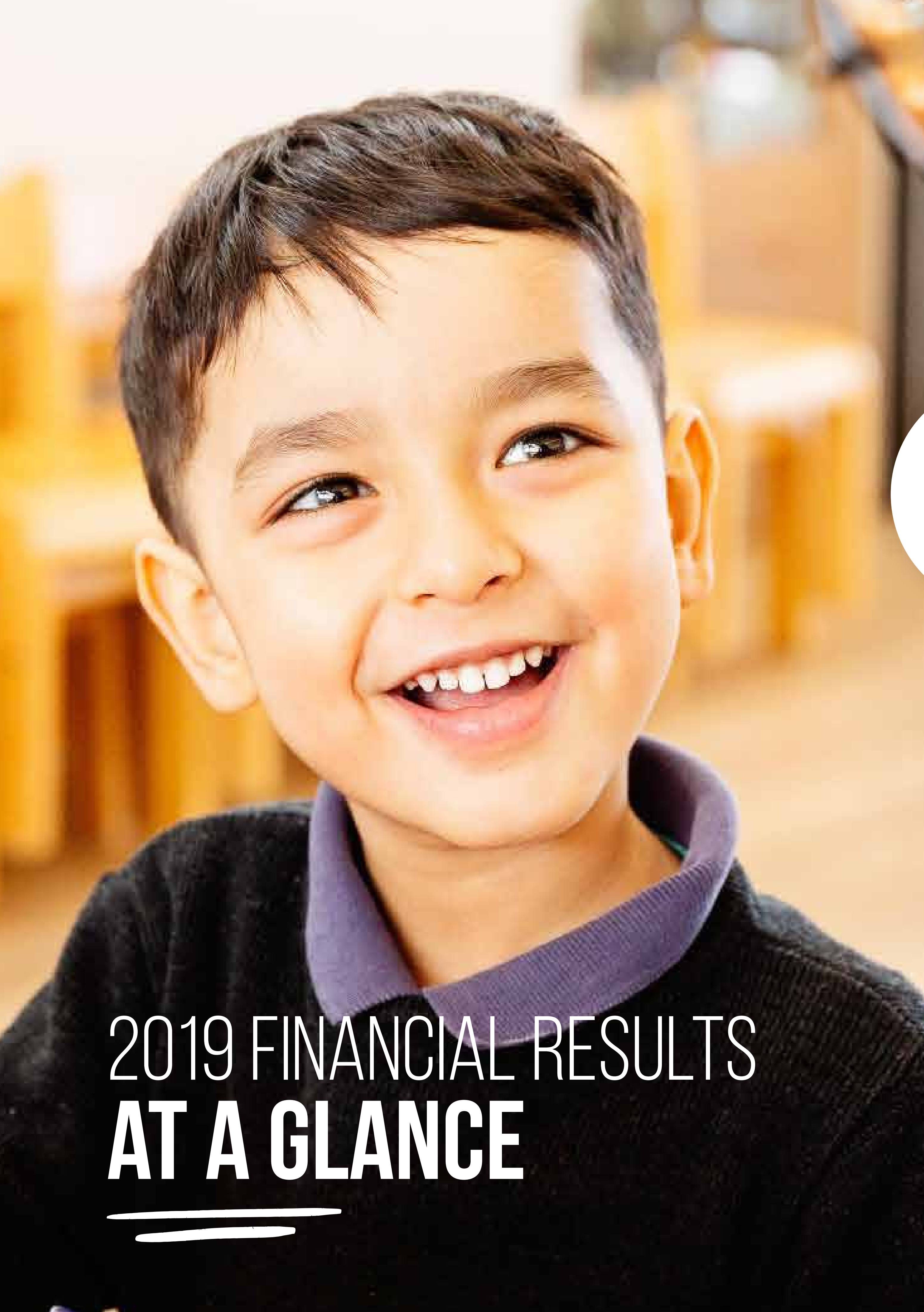
This combination of strategy with rigorous execution will leave us well placed to deliver sustainable value to children, families and our shareholders in the years ahead.

Yours sincerely,

Gary Carroll

Gary Carroll

Managing Director



2019 FINANCIAL RESULTS **AT A GLANCE**

STATUTORY EPS
13.66
CENTS PER SHARE

STATUTORY EBIT
$159.4
MILLION

UNDERLYING EPS
16.67
CENTS PER SHARE

UNDERLYING EBIT
$132.5
MILLION

STATUTORY NPAT
$62.6
MILLION

STATUTORY REVENUE
$922.2
MILLION

UNDERLYING NPAT
$76.4
MILLION

2019 HIGHLIGHTS

BUILD A GREAT TEAM

Our objective in this strategic pillar is to attract, retain and develop great talent that is connected and engaged behind a values-based, purpose-driven culture.

We will deliver this objective by using our scale to provide:

- a differentiated employment offer based on career pathways;
- market-leading professional development and training; and
- innovative remuneration, benefits and reward and recognition frameworks.

The primary measures we will use to track our progress will be Centre Manager and ECT Turnover, Team Engagement and Employer Brand benchmarks.

KEY ACHIEVEMENTS IN 2019

CAREER PATHWAYS

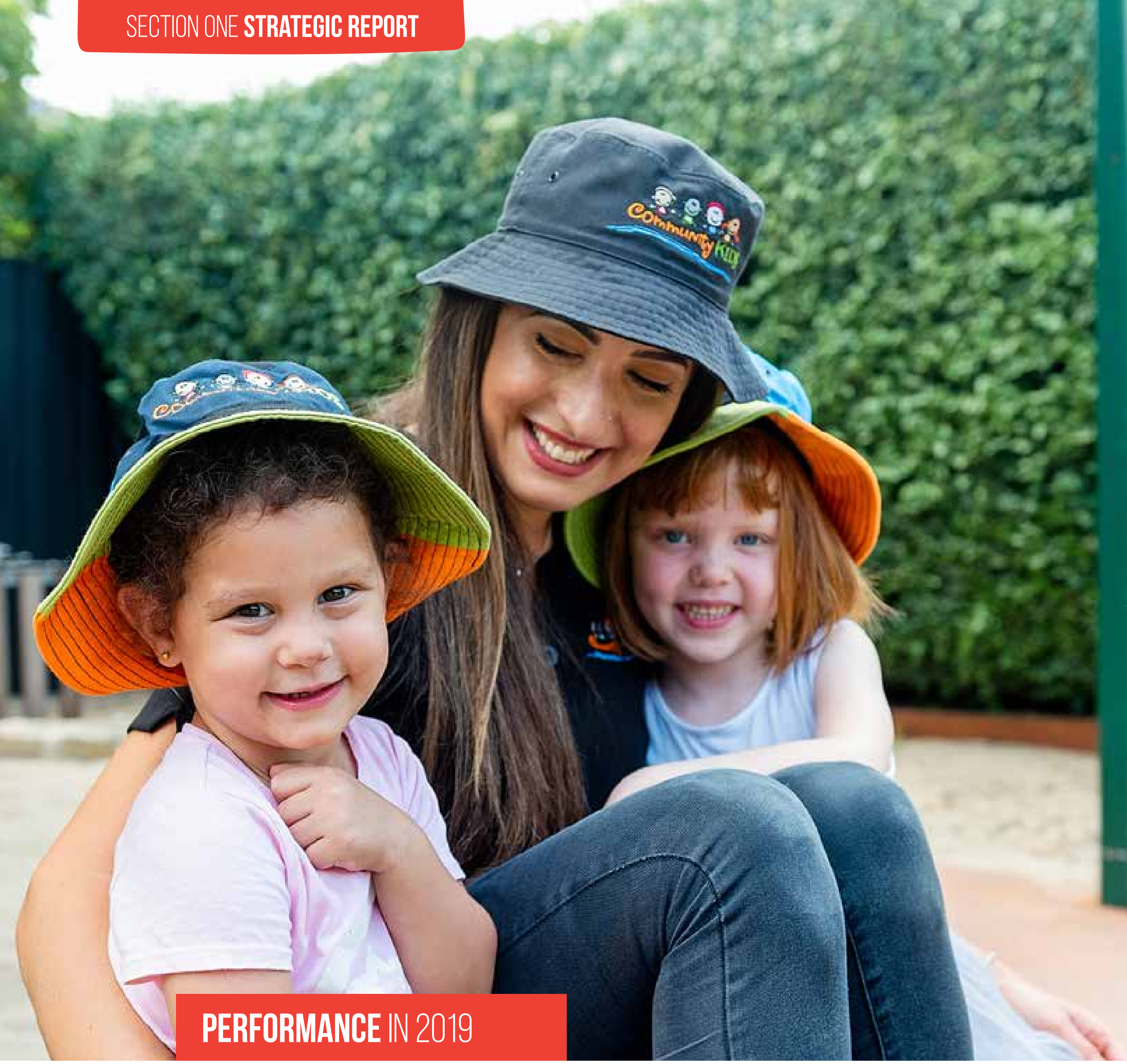
Roll-out of new Bachelor Scholarship program.

TRAINING AND PROFESSIONAL DEVELOPMENT

Roll-out of new Teacher training course, pilot of new Centre Manager Induction Program.

REMUNERATION, BENEFITS & RECOGNITION

Extension of team member discount to G8 family members, implementation of new Workplace connection and recognition platform.



PERFORMANCE IN 2019

RECORD
reduction in Centre Manager turnover

78%
team engagement score, 1% above relevant industry benchmark

TOP 20
Most Attractive Employer in Australia, awarded by Randstad

STRENGTHEN THE FOUNDATION

Our objective in this strategic pillar is to build high quality early learning centres, with quality including safety of both team members and children, the physical asset environment, and learning environments and programs.

We will deliver this objective by using our scale to:

- provide high quality training and monitoring systems for team and child safety;
- develop and maintain consistently high asset standards; and
- utilise our dedicated Early Education & Learning team to develop and roll-out market-leading practice support and learning programs.

The primary measures we will use to track our progress will be Team Member Lost Time Injury Frequency Rate ("LTIFR"), Child Injury Rates, and Assessment & Rating results in relation to adherence to National Quality Standards.

KEY ACHIEVEMENTS IN 2019

CHILD SAFETY

Partnered with Bravehearts to develop refreshed child safety training and rolled out the training to a pilot group of centres ahead of full roll-out in 2020.

TEAM MEMBER SAFETY

Implemented national injury hotline, piloted new training programs and support materials for centres, and connected 377 team health and safety champions.

LEARNING AND DEVELOPMENT PROGRAMS

Developed practice support guides and environment guidelines to support centres in setting up high quality learning environments and practices, established state-based practice partner network to support and mentor centres.

ASSET STANDARDS

Completed 70 major upgrades at a total cost of $21 million.

PERFORMANCE IN 2019

3.6%
reduction in Child Injury Rate

53%
reduction in Team member LTIFR

+1.1% PTS
above the relevant national benchmark for centres that are Meeting or Exceeding National Quality Standards

DIFFERENTIATED FAMILY OFFER

Our objective in this strategic pillar is to provide offers and experiences that enable our centres to be the centre of choice in the market.

We will deliver this objective by using our scale to:

- Work with partners to develop and roll-out products and programs that add value to families; and
- Develop and implement market-leading experiences at every stage of a family's journey with us.

The primary measures we will use to track our progress will be Occupancy and Net Promoter Score ("NPS")

In our strategic pathway, the development of differentiated offers and experiences comes after the first 2 pillars related to Team and Quality. Accordingly, the focus to date in this pillar has been on building foundational family experience processes and undertaking research and product development for roll-out from 2020.

KEY ACHIEVEMENTS IN 2019

CUSTOMER ENGAGEMENT CENTRE

Roll-out of national customer engagement centre to improve the experience from enquiry to booking.

LEARNING AND DEVELOPMENT PROGRAMS

Pilot of a number of learning programs covering literacy and sensory development, as well as research and product development covering other value-adding areas for families.

PERFORMANCE IN 2019

1.1%
like-for-like
Occupancy growth
for the year

115K+
inbound calls
captured by the CET
since launch

SUSTAINABLE PROFITABILITY

Our objective in this strategic pillar is to provide sustainable, attractive financial returns to shareholders.

We will deliver this objective by using our scale to:

- Re-engineer our operating processes to centralise and automate such processes, freeing up Centre Managers to focus on families and team members as well as reducing costs;
- Optimise the returns from our centre network by actively managing network performance and investing in growing our network of centres.

The primary measures we will use to track our progress will be Earnings and Return on Capital.

KEY ACHIEVEMENTS IN 2019

ACQUISITION AND DIVESTMENT OF CENTRES

Completed the acquisition of 15 centres, divested 25 centres and closed 16 underperforming centres during the year.

HUMAN RESOURCE MANAGEMENT PLATFORM

Commenced the implementation of a new Human Resource management platform for the Group, covering all aspects of people management. The new system is on track to be rolled out in mid-2020 and generate time savings for Centre Managers as well as ensuring supervision and ratio compliance while reducing wage costs for the Group.

PERFORMANCE IN 2019

3%
growth in Organic EBIT

10.3%
ROCE - down from 11.2% in prior year due to lag time associated with returns from greenfield centre acquisitions

MATERIAL **RISKS**

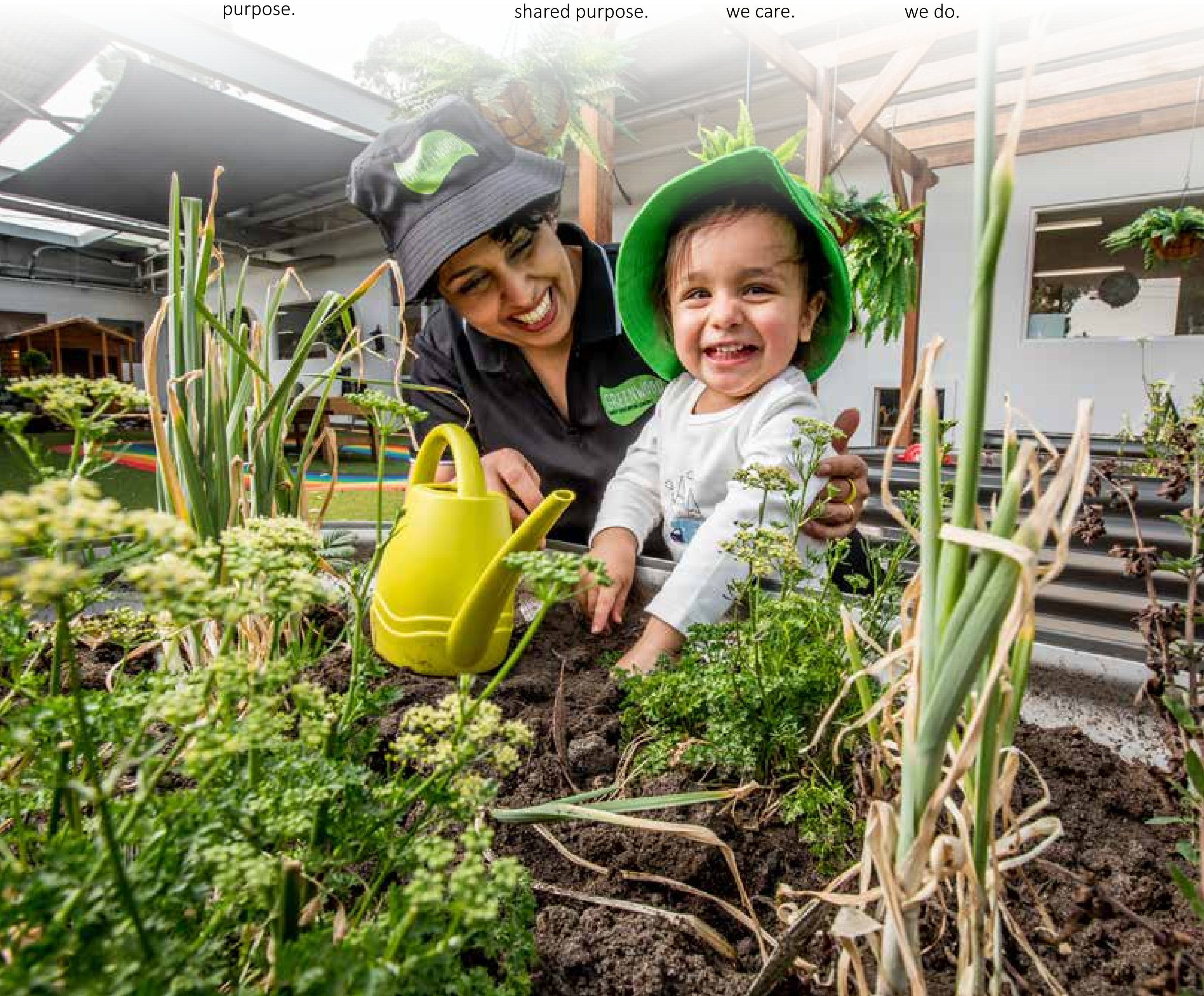
The following risks identified by our Group represent threats to our Group's growth strategy. We have a risk management framework in place to manage the risks identified.

RISK	MITIGATING ACTIVITIES
1. Safety, health and well-being We care about the physical and psychological safety and health of the children in our care and our team members. We are committed to creating a safe learning and working environment, where everyone arrives home free from injuries and illness.	• Our Group has a suite of policies supported by training that address various aspects of both team and child safety and health, including interactions with children, conduct, physical environments, procedures, recruitment and reporting. • Our educators must have a "Working with Children Check" and our Recruitment Policy and Processes seek to ensure the best educators are engaging with the children in our care. • Our Board is provided with at least monthly update regarding child protection and safety and our Group's Audit & Risk Management Committee and People & Culture Committee are provided with at least quarterly updates to monitor the effectiveness of the implementation of the Safety and Health policies, standards, plans, risk program, processes, resources and compliance. • We continue to invest to improve quality and safety, address risks and develop a safety culture across our business.
2. Strategic execution The successful delivery of our Group's strategic plan is critical to enable our Group to effectively leverage its scale advantage. This requires building and maintaining organisational capability in relation to planning, resourcing and execution of key projects.	• Our Board provides oversight of the delivery, progress against plan, key resourcing, capability and critical dependencies for our Group's strategy. • We have dedicated project and change management capabilities that assist with project delivery and evaluating the impact of change on our operations to ensure key initiatives are effectively embedded.
3. Competition The early learning sector remains competitive with new supply consistently entering the market. This environment creates both opportunities and risks that may impact business performance within the local markets in which we operate.	• Our Executive Leadership Team regularly review key market trends, price points across competitors, promotions and marketing activity along with our Group's occupancy, wages, strategic initiative benefits and costs. • Our business intelligence and performance reporting systems provide clear visibility of operating driver performance at centre level, enabling decisions to be made on a timely basis in response to changing local market conditions.
4. Changes to regulatory environment Regulatory changes to the early learning sector may have an adverse impact on the way we manage and operate our centres and on our financial performance. The introduction of new legislation or regulations, or changes in Government funded child care subsidy levels may adversely impact our financial performance and future prospects.	• The sector continues to enjoy strong bipartisan Government support as evidenced by increases to child care subsidy levels in mid-2018. • Our Group maintains productive working relationships at both Federal and State Government levels providing our Group with early visibility of pending regulatory changes and enabling us to prepare and respond to such change.
5. Economic Conditions Economic conditions, including but not limited to the unemployment rates, birth rates, lower female workforce participation, lower household income and wealth or deterioration of market conditions in the areas surrounding our centres may impact the occupancy levels at our centres.	• Our Group undertakes detailed supply demand modelling in relation to existing and new centre investments to ensure forecast social and economic drivers are factored into any investment decisions.

6. Financial, treasury and insurance The management of liquidity to make payments to team members and suppliers in particular, and the management of capital and availability of funding, are important requirements to support our business operations and growth. In addition, we are exposed to material adverse fluctuations in interest rates, which could impact profitability.	• We have a Board approved Treasury Policy which governs the management of our treasury risks, including liquidity, funding, interest rates, the use of derivatives and counterparty risk. These risks are managed day to day by our Group Finance function. • We have medium term bank funding facilities in place with a syndicate of banks and manage these facilities to ensure availability of cash and committed debt facilities to meet our forecasted liquidity and capital requirements.
7. Cyber and Business Interruption The protection of the personal information of our families and team members is paramount. A major data or information security breach has the potential to result in unauthorised access, disclosure, loss and/or misuse of family, supplier, team member and company information which may cause significant business and reputational damage, adverse regulatory and financial impacts and legal proceedings. Additionally, business interruptions due to a failure in key operating systems could impact the normal functioning of our centres and could lead to financial loss. Accidents, natural disasters and other events can occur which affect our customers, team members and business. Insurance can be used to protect against losses from such incidents.	• Our cyber security team is responsible for managing our information security management system (ISMS) covering cyber, privacy and business continuity planning. This includes monitoring, assessing and continuing to enhance our information and physical security to keep pace with increasing threats, with monthly reporting to our Board on the implementation and success of the ISMS. • How we collect, use, secure, manage and monitor data and our key systems is governed through our Group Cyber Security, Privacy, Acceptable Use of Information Systems Policy and associated standards. • We monitor and respond to threats in the continuity of our operations from natural disasters, weather conditions, industrial disputes, technology or system failures, cyber attacks, acts of terrorism and other factors. • Our Group's Business Continuity Planning guides our response to major incidents. • We invest in our technology infrastructure, applications and review our IT recovery plans to enhance our offsite backup and recovery capabilities. • We partner with leading cyber security firms to continuously minor developments in relation to cyber threats and resulting remedial actions. • Our Group Legal, Risk & Insurance function manages the purchase of insurance where we determine this is prudent. In some cases, we choose to self insure risks. This means that in the event of an incident, we cannot make a claim against a third party insurer but we will pay or absorb the losses ourselves. We monitor our self insured risks and have active programs to help us pre empt and mitigate losses.
8. Service approval at particular centres or other required licences may be revoked Certain centres in our network may have their service approval rejected or revoked or we may lose our licence to operate as an Approved Provider of early education and care. Regulatory compliance is subject to periodic review and may be revoked in certain circumstances. If we do not comply with regulations and are unable to maintain Service Approval for the operation of our early education facilities or if any of our existing approvals are adversely amended or revoked, this may adversely impact our financial performance.	• Our dedicated Safety, Quality & Compliance and Education teams ensure that G8 Education and each of our centres adhere to the National Quality Framework and relevant operating regulations. • Our Group Compliance Framework, which includes Executive and Board oversight, along with a range of policies, procedures and business operational compliance plans help us manage our legal and regulatory compliance.
9. People Our team members are key to the success of our business and it is critical that we can attract, retain and motivate appropriately skilled and trained team members that meet the existing or future education and care needs of our families. There is a risk that we may not be able to suitably maintain an appropriately skilled base of team members. If this type of risk was to eventuate, it may increase our costs, impact occupancy levels and reduce profitability.	• Our Group has a dedicated recruitment team focused on finding and employing the right talent to ensure the people entering our business meet the needs of each individual role. • Our market leading Bachelor Scholarship program and G8 Family and Team Member Benefits programs are in place to attract and retain good people. Those programs subsidise early learning for our team and provide direct sponsorship and scholarships to enable our team members to undertake further education and study. These programs and the development of our people are supported by a dedicated Learning and Development team who provide ongoing training and leadership development to ensure our team members maintain our standards and develop their careers. • We have a structured talent management framework covering workforce planning, succession planning and performance management to ensure a pipeline of talent for key roles. • Team member engagement surveys are regularly conducted to understand and help us respond to the needs of our team members.

SUSTAINABILITY **REPORT**

PASSION	INNOVATION	DEDICATION	COMPASSION	INTEGRITY
Doing what we love with enthusiasm and purpose.	Striving to go above and beyond.	Embracing new ideas that further develop our shared purpose.	Showing empathy and kindness to others because we care.	Consistently being respectful, honest and fair in all that we do.



OUR **PURPOSE**

G8 Education exists to deliver quality care and early education to children from every background and recognises the enormous benefits that quality early education can have on each child's social, cognitive and educational development. Ensuring the safety of children and promoting the wellbeing of children are essential elements of our purpose. Through our deep commitment to quality education and care, G8 Education is able to have a profoundly positive impact on the future of the most valuable and vulnerable members of society. Every member of our team shares in our collective commitment to create environments where children and families can feel safe, supported, and included and where children from every background are able to thrive.

PROGRESS MADE IN **2019**

OUR **PLANET**

98% of centres assessed by ACECQA as meeting the standard for both caring for the environment and supporting children to become environmentally responsible

98% waste diversion rate achieved for aged IT equipment

94% of centres use natural lighting where possible

88% of centres involve children in biodiversity initiatives

OUR **CHILDREN**

54K Children provided Education and Care per week

306 Health & Safety Champions

Proudly Supporting Bravehearts

Child Safe Organisation Framework developed

OUR **PEOPLE**

Rated amongst the **TOP 20** Most Attractive Employers in Australia

53% improvement in Lost Time Injury Frequency Rate

45% females on the Executive Leadership Team

50% female non-Excecutive Directors

OUR **COMMUNITY**

DONATIONS to community based charitable organisations

CARE provided without charge to communities affected by fire, drought, and flooding

SILVER AWARD received from Bravehearts in recognition of our contributions and support to child protection in Australia

123 Full and Partial Scholarships awarded to individuals completing a Bachelor of Early Childhood Education Program

QUALITY

81% of centres assessed by ACECQA as meeting or exceeding the National Quality Standard

20% of centres assessed by ACECQA as exceeding the National Quality Standard

FINALIST RM Advancer 2019 Award for team safety outcomes

OUR CHILDREN AND THEIR PROTECTION

Children and their families are at the heart of everything we do. Caring for more than 54,000 children across Australia within our care per week, we are deeply aware that our approach to child protection is able to have a significant impact. As a sector leader, G8 Education is a committed champion in the development of the safest and most secure environments possible for children and families. We meet this commitment through ongoing support and continuing development and education for our team of over 9,000 early learning educators.

In 2019 we also enhanced our Child Safe Organisation Framework developed in partnership with Bravehearts and advice from Ernst & Young. Our ongoing investment in this industry leading framework, reaffirms G8 Education's commitment to being a leader in promoting and advocating for child protection.

OUR FAMILIES

The families we support are representative of the rich diversity of the communities in which we operate. G8 Education is continually seeking opportunities to embrace this diversity within our own centre communities. During 2019 this engagement has focused on three initiatives:

- An improved Customer Experience Journey Map and Planning process
- Development of our industry leading Child Safe Organisation Framework
- Continual development of centre policies and practices

G8 Education's customer feedback program provides families with an accessible channel for providing feedback, raising issues and seeking resolution to any concern they may have regarding any aspect of the care or services provided. G8 Education treats all feedback received from families as a valuable opportunity to improve and deliver the highest possible quality of care and early education.

OUR **PEOPLE**

Through the incredibly important role that our teams play, we have continued to educate, nurture and inspire the next generation of our nation. G8 Education recognises that our people and the culture of our teams are what create and maintain our reputation. We therefore continue to invest in the retention and development of values-driven team members who are committed to the best interest of the children under our care.

Key achievements in 2019 have included:

- Our team engagement survey shows a continuing positive trend;
- Bachelor Scholarship Program successfully launched and awarded to 123 educators throughout Australia;
- Roll-out of co-creation workshops on a range of topics including the strategic People Pathways Program, Xplor, Practice, Safety, Child Protection, Change Impact and Recruitment;
- Assessed more than 14,000 nominations for the standout educator of the year within the G8 Education network;
- Launched Workplace (by Facebook) which has led to improved sharing, engagement, collaboration and communication across the G8 Education network, with more than 8,830 posts, 22,650 comments and 80,230 reactions from more than 5,000 active team member accounts;
- Improved diversity in our team, with team members representing 86 different nationalities and team members representing a wide representation of age groups.

SAFETY

Recognising that the safety of children and team members is essential to the fulfilment of our purpose, G8 Education has made an increased and focused investment in our dedicated Safety, Quality and Compliance team during 2019. We have affirmed our commitment to health and safety through various campaigns #startasafetymovement, #findasaferyou, #seesomethingdosomething, and have achieved important and encouraging results during 2019, including:

- Growing the number of Health and Safety Champions within the G8 Education network from 12 to 306;
- Implementing and embedding a telephone nurse triage service across the entire G8 Education network;
- Reducing our lost time injury frequency rate by 53%; and
- Reducing our total time lost from injury by 58%.

OUR **PLANET**

G8 Education is committed to environmental responsibility. During 2019, ACECQA has assessed 98% of centres within the G8 Education network as meeting the standard for both caring for the environment and supporting children to become environmentally responsible.

Our centre programs during 2019 have seen children engage in activities such as:

- recycling, re-purposing and reuse;
- gardening, including growing vegetables;
- education on energy conservation practices; and
- education on water conservation practices.

During 2019, our support teams have achieved a 98% landfill diversion rate for aged information technology assets across the entire G8 Education network.

We continue to organically develop opportunities to reduce waste and recycle our waste into energy across our network and within our supply chain.

OUR **SERVICE QUALITY**

We have continued to improve our service quality and achieved the following results during 2019:

- 81% of centres assessed as "meeting" or "exceeding" the National Quality Standard, being 1% above the national average; and
- 20% of centres assessed as "exceeding" the National Quality Standard.

During 2019, G8 Education's commitment to children, team members and their safety has been recognised across the sector, including through:

- Being recognised amongst the 20 most attractive employer's in Australia by the Ranstad Group;
- Receipt of the Braveheart's Silver Award in recognition of contributions to child protection; and
- Being named as a finalist in the RM Advancer 2019 Risk Management Award for team safety outcomes.

OUR **COMMUNITY**

CHILDREN

G8 Education believes in the importance of community in the lives of children. We support authentic learning by providing diverse opportunities to develop a sense of identity through our many community engagement experiences. Excursions and centre events are integral in their significance and value for children. Our rich offering of experiences allows children to be both exposed to people and places that offer new perspectives to enrich their development, whilst also providing opportunities for children to be visible and take their place within the wider community.

SUPPORT

2019 has presented many opportunities for G8 Education to offer unique support to the communities within which it operates.

This support is driven overwhelmingly by the close people to people connections between our teams and families. Some of our initiatives have included:

- "Buy a Bale" which has seen children raise over $31,000 in funds and deliver 224 bales of hay to drought affected farmers in rural areas;
- "Care Packages" which has seen our team members provide personal care packages to emergency services personnel and community members affected by bushfire;
- Financial and experiential support for over 630 traineeships for early childhood education and care Certificate III and Diploma qualifications;
- Involvement in White Balloon Day to raise awareness for the prevention of child sexual assault and exploitation;
- Extension of Childcare Benefit to G8 Families;
- Movember;
- Brave the Shave supporting our contact center partner to raise more than $50,000.

SUSTAINABILITY **GOVERNANCE**

Families put their trust in G8 Education to provide quality care and education services that add value to families. We recognise that the way we do business is critical in order for us to earn and maintain the respect and trust of not only G8 Education families but all stakeholders, including our employees, shareholders and the community.

G8 Education and its Board are committed to good corporate governance practices and complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition). The Board of Directors guides and monitors the business and affairs of G8 Education on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board sees this commitment as fundamental to the sustainability and performance of its business and to enhance shareholder value.

DIRECTORS' **REPORT**

BOARD OF DIRECTORS

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 2019. 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.

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 with a diverse portfolio. He was a Director of Westfield Corporate Limited until 8 June 2018, is currently a Director of Coca-Cola Amatil Limited and a Director on other non-listed company boards.

Prior to embarking on his Board career, Mr Johnson 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.

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), FCPA

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

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 banking, diversified investment and property development businesses in South Africa and Australia, including Rand-Merchant Bank, the Ivany Investment Group, PAYCE Consolidated and the Terrace Tower 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

PROFESSOR JULIE COGIN

FAICD, PhD, M.Ed., BBus

INDEPENDENT NON-EXECUTIVE DIRECTOR SINCE 1 SEPTEMBER 2017

Professor Julie Cogin has worked in education for more than 25 years. In addition to her non-executive director responsibilities, Julie is the Pro Vice Chancellor & Vice President at RMIT University, a multisector global university. She also Chairs the board of RMIT Training Pty Limited.

Prior to joining RMIT University, Julie was Dean and Head of UQ Business School at the University of Queensland, being the first female Business Dean at a Go8 university. Preceding this, Julie held multiple senior leadership roles at the University of New South Wales (UNSW). In 2012 Julie was awarded UNSW highest leadership award.

Julie is a recognised thought leader in strategy implementation, high performing workplaces and corporate culture, having authored multiple books and papers. She has been awarded education awards at University, National and International levels and delivered education or consulting engagements for many leading companies throughout Australia, Asia and in the USA.

In 2016, Julie was named as one of Australia's Women of Influence by The Australian Financial Review and Westpac.

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

BOARD OF DIRECTORS

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 more than 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. She 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), Viva Leisure Limited (appointed 18 October 2018) and Chair – National Veterinary Care Ltd (appointed 1 February 2015)

Former listed public Company Directorships in the last three years: Xenith IP Group Ltd (resigned 15 August 2019)

DAVID FOSTER

B.App.Sci, MBA, GAICD, SFFin

INDEPENDENT NON-EXECUTIVE DIRECTOR SINCE 1 FEBRUARY 2016

David Foster has had a successful career in financial services spanning over 25 years, with his last executive role being Chief Executive Officer of Suncorp Bank, Australia's 5th largest bank. Since leaving Suncorp, David 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. David currently serves as Chairman of MotorCycle Holdings Limited and as Director of Genworth Mortgage Insurance Australia Limited and Bendigo and Adelaide Bank 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), Genworth Mortgage Insurance Australia Limited (appointed 30 May 2016) and Bendigo and Adelaide Bank Limited (appointed 4 September 2019)

Former listed public Company Directorships in the last three years: Kina Securities Limited (retired 23 May 2018), Thorn Group Limited (retired 23 October 2019)

MARGARET ZABEL

FAICD, MBA, BMath

INDEPENDENT NON-EXECUTIVE DIRECTOR SINCE 1 SEPTEMBER 2017

Margaret Zabel 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 a Non-Executive Director on the Board of Collective Wellness Group and Fairtrade AUNZ.

Special responsibilities: Member of the Nomination Committee and Audit and Risk Management 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 16 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.

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 2019.

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.

Significant changes in the state of affairs

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

- Acquired 15 child care centres in Australia
- Divested 25 child care centres in Western Australia and closed a further 16 centres at the expiry of the relevant lease
- Implemented AASB 16 *Leases* Standard
- Redemption on Maturity of $270 million Singapore Notes

Matters subsequent to the end of the financial year

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

- The Board declared a 6.0 cents fully franked dividend at the Board meeting, which will be the final dividend for the year.

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:	2019 $'000	2018 $'000
Dividend for the full financial year ended 31 December 2018 of 8.0 cents per share paid on 5 April 2019. (2018: Dividend for the full financial year ended 31 December 2017 of 10.0 cents per share paid on 23 March 2018)	36,430	44,853
Dividend for the half year ended 30 June 2019 of 4.75 cents per share paid on 3 October 2019. (2018: Dividend for the half year ended 30 June 2018 of 4.5 cents per share paid on 5 October 2018)	21,771	20,406
TOTAL	**58,201**	**65,259**

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 2019, 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	14	14	4	4	4	4	5	6
B Bailison	14	14	4	4	4	4	-	-
S Forrester, AM	13	14	-	-	3	4	6	6
D Foster	14	14	4	4	4	4	-	-
M Zabel	14	14	4	4	4	4	-	-
J Cogin	14	14	-	-	4	4	6	6
G Carroll	14	14	-	-	-	-	-	-

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

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.

KEY OPERATIONAL INFORMATION

	Consolidated Group
Number of owned centres at year end	492
Licence capacity of owned centres at year end	40,673
Total Number of employees at year end	11,729
Total number of full time equivalent employees at year end	**10,426**

AASB 16 *LEASES* IMPACT

Given the pervasive effect the new accounting standard, AASB 16 *Leases*, has on the 2019 full year results and balance sheet at 31 December 2019, which is not reflected in the 2018 year, the Directors have included the following tables which are considered to provide useful and meaningful information to G8 Education's stakeholders. This is non-IFRS information which is unaudited.

AASB 16 *LEASES* IMPACT ON CONSOLIDATED INCOME STATEMENT (Unaudited, Non IFRS)

Consolidated Full Year	31 December 2019 Statutory $'000	31 December 2019 AASB 16 Adjustment $'000	31 December 2019 pre-AASB 16[2] $'000	31 December 2018 pre-AASB 16 (Statutory) $'000	pre-AASB 16 % Change
Revenue[1]	**922,202**	**(1,588)**	**920,614**	**858,173**	**7.3%**
Expenses					
Employment costs	(542,801)	-	(542,801)	(507,105)	7.0%
Occupancy	(11,752)	(107,451)	(119,203)	(108,915)	9.4%
Direct costs of providing services	(67,632)	-	(67,632)	(61,622)	9.8%
Depreciation	(100,117)	78,029	(22,088)	(16,483)	34.0%
Other expenses	(39,986)	(1,576)	(41,562)	(31,449)	32.2%
Finance costs[1]	(73,914)	45,010	(28,904)	(28,973)	(0.2%)
Total expenses	**(836,202)**	**14,012**	**(822,190)**	**(754,547)**	**9.0%**
Profit before income tax	**86,000**	**12,424**	**98,424**	**103,626**	**(5.0%)**
Income tax expense	(23,411)	(4,152)	(27,563)	(31,795)	(13.3%)
Profit for the year attributable to members of the parent entity	**62,589**	**8,272**	**70,861**	**71,831**	**(1.4%)**
	Cents	**Cents**	**Cents**	**Cents**	
Basic earnings per share	13.66	1.81	15.47	15.87	(2.5%)
Diluted earnings per share	13.66	1.81	15.47	15.87	(2.5%)

[1]2019 revenue includes a $2.8 million FX gain. In the 2019 Interim Financial Report the $2.8 million gain was reflected as an offset to finance costs rather than included in revenue.

[2]Pre-AASB 16 *Leases* Income Statement includes a gain on disposal of leases of $5.0 million, in relation to the sale of assets during the year.

AASB 16 *LEASES* IMPACT ON CONSOLIDATED BALANCE SHEET (Unaudited, Non IFRS)

Consolidated Full Year	31 December 2019 Statutory $'000	31 December 2019 AASB 16 Adjustment $'000	31 December 2019 pre-AASB 16 $'000	31 December 2018 pre-AASB 16 (Statutory) $'000
ASSETS				
Current assets				
Cash and cash equivalents	40,603	-	40,603	55,521
Trade and other receivables	29,936	7,833	37,769	36,502
Other current assets	11,232	(53)	11,179	14,120
Derivative financial instruments	-	-	-	10,837
Current tax asset	1,938	-	1,938	-
Total current assets	**83,709**	**7,780**	**91,489**	**116,980**
Non-current assets				
Property plant and equipment	103,864	8,994	112,858	91,710
Right of use assets	606,219	(606,219)	-	-
Deferred tax assets	53,966	(32,899)	21,067	17,856
Intangible assets	1,193,160	-	1,193,160	1,134,456
Other non-current assets	5,894	53	5,947	25,547
Total non-current assets	**1,963,103**	**(630,071)**	**1,333,032**	**1,269,569**
Total assets	**2,046,812**	**(622,291)**	**1,424,521**	**1,386,549**
LIABILITIES				
Current liabilities				
Trade and other payables	54,840	1,854	56,694	67,911
Contract liabilities	7,148	-	7,148	8,517
Current tax liability	-	-	-	700
Borrowings	-	-	-	279,566
Lease liabilities	68,482	(68,482)	-	-
Provisions	34,264	-	34,264	29,988
Total current liabilities	**164,734**	**(66,628)**	**98,106**	**386,682**
Non-current liabilities				
Other payables	696	6,394	7,090	5,260
Borrowings	387,750	-	387,750	92,188
Lease liabilities	640,655	(640,655)	-	-
Provisions	13,087	-	13,087	8,935
Total non-current liabilities	**1,042,188**	**(634,261)**	**407,927**	**106,383**
Total liabilities	**1,206,922**	**(700,889)**	**506,033**	**493,065**
Net assets	**839,890**	**78,598**	**918,488**	**893,484**
EQUITY				
Contributed equity	907,255	-	907,255	893,567
Reserves	63,080	-	63,080	56,530
Retained earnings	(130,445)	78,598	(51,847)	(56,613)
Total equity	**839,890**	**78,598**	**918,488**	**893,484**

AASB 16 *LEASES* IMPACT ON CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited, Non IFRS)

Consolidated Full Year	31 December 2019 Statutory $'000	31 December 2019 AASB 16 Adjustment $'000	31 December 2019 pre-AASB 16 $'000	31 December 2018 pre-AASB 16 (Statutory) $'000
Cash flows from operating activities				
Receipts from customers (inclusive of GST)	923,056	-	923,056	853,627
Payments to suppliers and employees (inclusive of GST)	(670,585)	(108,575)	(779,160)	(695,208)
Interest received	494	-	494	455
Interest paid	(69,388)	44,827	(24,561)	(23,003)
Income taxes paid	(29,587)	-	(29,587)	(29,924)
Net cash inflows from operating activities	**153,990**	**(63,748)**	**90,242**	**105,947**
Cash flows from investing activities				
Payments for acquisition of businesses (net of cash acquired)	(49,506)	-	(49,506)	(52,613)
Payments for purchase of intangible assets	-	-	-	(3,250)
Net proceeds / (payments) for divestments	5,553	-	5,553	(128)
Payments for property, plant and equipment	(39,767)	-	(39,767)	(36,819)
Net cash outflows from investing activities	**(83,720)**	**-**	**(83,720)**	**(92,810)**
Cash flows from financing activities				
Share issue costs	(33)	-	(33)	(47)
Dividends paid	(44,490)	-	(44,490)	(48,131)
Principal portion of lease payments	(63,748)	63,748	-	-
Repayment of corporate notes	(269,892)	-	(269,892)	(50,000)
Proceeds from issue of shares	-	-	-	139
Inflows from borrowings	295,000	-	295,000	195,000
Outflows of borrowings	(2,058)	-	(2,058)	(103,981)
Net cash outflows from financing activities	**(85,221)**	**63,748**	**(21,473)**	**(7,020)**
Net (decrease)/increase in cash and cash equivalents	(14,951)	-	(14,951)	6,117
Cash and cash equivalents at the beginning of the financial year	55,521	-	55,521	49,195
Effects of exchange rate changes on cash	33	-	33	209
Cash and cash equivalents at the end of the financial year	**40,603**	**-**	**40,603**	**55,521**

UNDERLYING RESULT (UNAUDITED, NON-IFRS)

The financial performance of the Group for the year resulted in an underlying EBIT of $132.5 million which is in line with market consensus.

The table below illustrates the reconciliation of reported NPAT and EBIT to underlying NPAT and EBIT:

UNDERLYING NET PROFIT AFTER TAX RECONCILIATION (Unaudited, Non IFRS)

Consolidated Full Year	31 December 2019 $'000	31 December 2018 $'000
Revenue[1]	921,708	857,758
Expenses	(762,288)	(725,574)
Net financing cost	(73,420)	(28,558)
Net profit before tax	**86,000**	**103,626**
Net profit after tax	**62,589**	**71,831**
Add/(less) AASB 16 *Leases* adjustments[2]	9,860	-
Add/(less) non-operating transactions:		
Contingent consideration not paid	(681)	(2,199)
Acquisition related expenses[3]	5,088	5,451
Borrowing cost expense[4,5]	2,476	3,078
Loss on disposal of assets/closure of centres[2]	2,446	825
Foreign currency translation (gain)/loss[4,5]	(1,967)	431
Recognition of tax losses from acquired entities	(3,435)	-
Underlying net profit after tax	**76,376**	**79,417**
Underlying EPS (cents per share)	**16.67**	**17.54**
Earnings before interest and tax	**159,420**	**132,184**
Add/(less) AASB 16 *Leases* adjustments[2]	(30,998)	-
Add/(less) non-operating transactions:		
Contingent consideration not paid	(681)	(2,199)
Acquisition related expenses[3]	5,088	5,451
Loss on disposal of assets/closure of centres[2]	2,446	825
Foreign currency translation (gain)/loss[4]	(2,810)	-
Underlying earnings before interest and tax	**132,465**	**136,261**

[1] Excludes interest income of $0.5 million from revenue and included in financing costs (2018: $0.4 million)
[2] Excludes gain on divestment of leases income of $1.6 million from AASB 16 *Leases* adjustments and included in Loss on disposal of assets/closure of centres (2018: nil)
[3] Includes stamp duty, legal fees, establishment costs and abandoned acquisition costs
[4] These items will cease to be removed from underlying from CY20 onwards following the repayment of the SGD bonds
[5] These items have been adjusted for tax

NON-IFRS FINANCIAL INFORMATION

The 2019 Annual Report contains certain non-IFRS financial measures of historical financial performance, balance sheet or cash flows that are used by management and the Directors as the primary measures of assessing the financial performance of the Group. Non-IFRS financial measures are financial measures other than those defined or specified under all relevant accounting standards and may not be directly comparable with other companies' measures but are common practice in the industry in which G8 Education operates. Non-IFRS financial information should be considered in addition to, and is not intended to be a substitute for, or more important than, IFRS measures.

The presentation of non-IFRS measures is in line with Regulatory Guide 230 issued by Australian Security and Investments Commission (ASIC) in December 2011 to promote full and clear disclosure for investors and other users of financial information and minimise the possibility of being misled by such information. Non-IFRS measures are not subject to audit or review.

REMUNERATION **REPORT**

SECTION	TITLE	DESCRIPTION
1	Introduction from the People & Culture Committee Chair	Sets out the activities of the People & Culture Committee and the Board and people focussed highlights
2	Who is covered	Details of senior executives and Non-Executive Directors
3	Remuneration Governance	Describes the role of the Board, the People and Culture Committee, and the use of remuneration consultants
4	KMP Executive incentives	Our Strategy, Vision and Values that align to KMP Executive incentives
5	Remuneration details for 2019	Outlines the principles and strategy applied to executive remuneration decisions and the framework used to deliver incentives
6	KMP Equity Interests	Provides details of KMP shareholdings in G8 Education Limited
7	Employment agreements	Provides details regarding the contractual arrangements between G8 Education and KMP
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 2019.

1. INTRODUCTION FROM THE PEOPLE AND CULTURE COMMITTEE CHAIR

Dear Shareholders

In 2019 G8 Education continued to heavily invest in our people as we believe doing so will provide sustainable benefits over the long term.

With our executive team fully in place, our key focus was on execution of our strategic plan and the initiatives under the four core pillars comprising team, quality, customer and performance.

In terms of our ongoing commitment to our people, we concentrated on 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 2019 were:

- Careful consideration of the recommendations and community expectations following the Hayne Royal Commission and incorporation of certain recommendations into our Annual Work Plan
- Review and development of the People Strategy including guidance on the preparation of a People Dashboard with real time reporting of KPIs
- Review of our Executive KMP Remuneration Strategy and Framework in its third year of operation to include our updated values and alignment of KPIs to our four core pillars and consideration of alternative performance measures and hurdles
- Active monitoring of the succession plan for Executive Leaders
- Ongoing oversight of the 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
- Rigorous investigation and review of our WHS Framework and
- Review and endorsement of updates to our Whistle-blower Policy.

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 the gateway NPAT hurdle. In terms of the individual Short-Term Incentive ("STI") component, which comprises of 13.33% opportunity for the CEO and 30% opportunity for other KMP, while there was good progress in a number of performance areas, the KPIs were not achieved so no STIs were payable. The Board and the People and Culture Committee believe these annual incentive outcomes for each of our disclosed executives reflects our performance in 2019.

Last year's report flagged that 2019 would be the final year in our three year remuneration framework which commenced in 2017. During the year we monitored the effectiveness of this program and conducted a comprehensive review with our remuneration consultant. Some changes to our approach to executive remuneration were made, including the introduction of a financial gate for our STI and a confirmation of earnings per share, being the single earnings-based metric for our long-term incentive plan for Executives.

At our 2019 AGM we did not seek an increase to the aggregate Non-Executive Director fee pool and no increase to that pool is proposed in 2020. Our Board composition continues to reflect a healthy gender balance, with each gender now representing 50% of our independent Non-Executive Directors and women representing 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, AM

Chair, People and Culture Committee

Brisbane

23 February 2020

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 OF 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/COMMITTEES
Non-Executive Directors	
Mark Johnson	**Chairman**
	Member, Audit & Risk Management
	Member, Nomination
	Member, People & Culture
Brian Bailison	**Director**
	Chair, Audit & Risk Management
	Member, Nomination
Susan Forrester, AM	**Director**
	Chair, People & Culture
	Member, Nomination
David Foster	**Director**
	Chair, Nomination
	Member, Audit & Risk Management
Julie Cogin	**Director**
	Member, Nomination
	Member, People & Culture
Margaret Zabel	**Director**
	Member, Nomination
	Member, Audit & Risk Management
Executive Directors	
Gary Carroll	**CEO and Managing Director**
Other Executive KMP	
Sharyn Williams	**Chief Financial Officer**
Jason Ball	**General Manager Operations**

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.

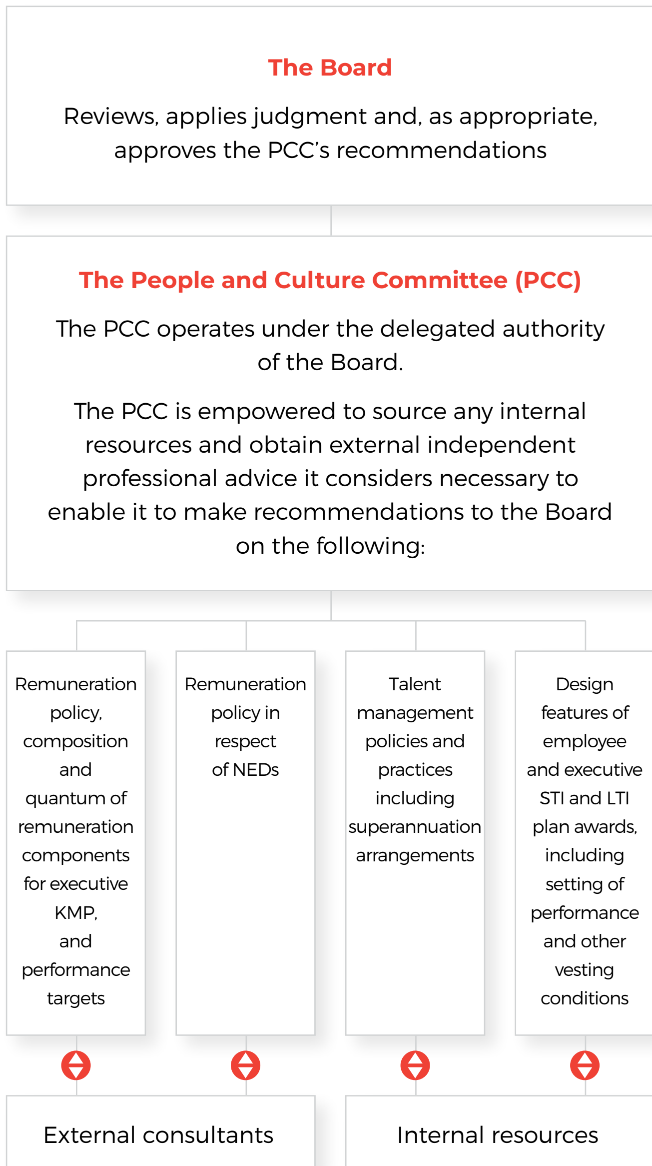
ROLE OF THE BOARD AND THE PEOPLE AND CULTURE COMMITTEE

The Board is responsible for G8 Education's remuneration strategy and policies. Consistent with this responsibility, the Board has established the People and Culture Committee (PCC) which comprises solely of 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 2019. 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 the Board and internal and external advisors are further illustrated below:



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 2019 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 Non-Executive Director and three executive roles. Crichton and Associates were paid $11,204 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 $2,232 during 2019, for these services.

4. OUR STRATEGY, VISION AND VALUES THAT ALIGN TO KMP SENIOR EXECUTIVE INCENTIVES

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.

THE STRATEGIC REMUNERATION FRAMEWORK WHICH APPLIES TO EXECUTIVE KMP OPERATES OVER A THREE YEAR CYCLE, ORIGINALLY APPROVED FROM 1 JANUARY 2017 AND CONCLUDING ON 31 DECEMBER 2019.

Our Strategic Priorities

Build a Great Team

Strengthen the Foundation

Create Sustainable Differentiation

Continue Profitable Growth

Our Purpose

We create spaces that shape generations now and next

Our Values

Passion, Innovation, Dedication, Compassion, Integrity

Short Term Incentive Plan (STIP)

The strategic priorities are translated into performance objectives and KPIs

Net Profit after Tax is the performance measure that applies to over 65% of the incentive

Measurable performance objectives are set across all strategic priorities and are closely aligned to our purpose and values. This ensures a balanced focus across all key strategic areas

Our Values are considered as we assess how performance has been achieved

Our Shareholder Value Proposition

Deliver sustainable double-digit growth in earnings for shareholders

Long Term Incentive Plan (LTIP)

Earnings per Share growth over the vesting period accounts for 100% of the award. The purpose of the incentive is to align executive KMP remuneration opportunity with shareholder value and provide retention stimulus

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)

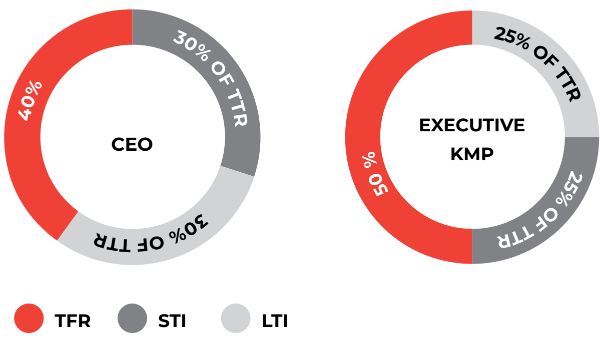
TTR is intended to be positioned in the 3rd quartile compared to relevant market benchmark comparisons. 4th quartile TTR may result if outperformance is achieved. The remuneration structure is designed to ensure top quartile executive KMP remuneration is only achieved if G8 Education outperforms.

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 2019

The mix of remuneration for the CEO and executive KMP for 2019 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 2019 as in 2018 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)

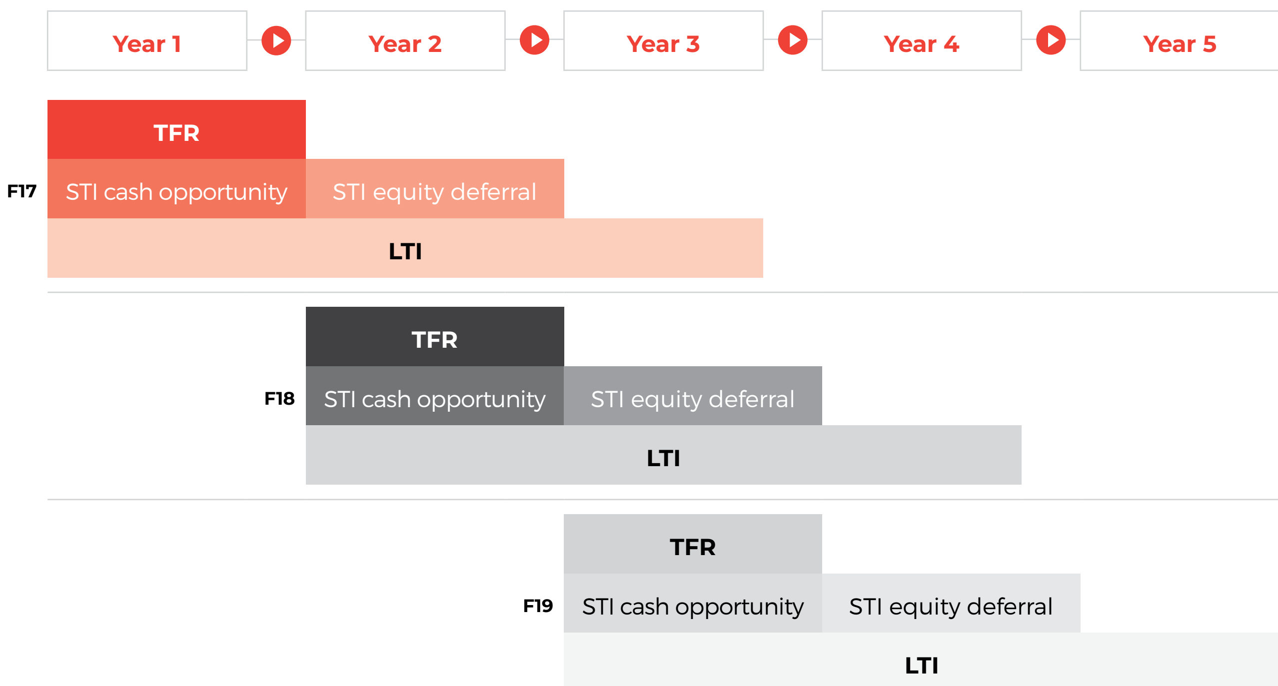
G8 Education's approach continues to position executive KMP at or around the market median (allowing for a range of 15% either side of the determined market median level). This positioning is confirmed regularly by reference to remuneration surveys and independent benchmark assessments from time to time. The comparator group used to benchmark executive KMP remuneration is ASX listed companies of a similar size.

A description of the 2019 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:



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. In respect of the individual KPIs, in 2019 there were six individual KPIs split into three areas – Team (2), Quality (2) and Customer (2). For 2020 there are four individual KPIs split into three areas - Team (2), Quality (1) and Customer (1). Any anomalies or discretionary elements are approved and validated by the Board. An individual's STI award cannot be higher than 20% if the Group financial targets are not met.
Rewarding performance	The STI performance ratings are determined under a predetermined matrix with the Board determination being final.
Deferral of STI	Effective from 1 January 2017 Board discretion to defer a portion of STI was introduced to reinforce alignment with shareholder interests. Any deferred 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. Board discretion may be applied to defer 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 2020. 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 is awarded and service rights have been granted, there are no further performance measures attached to the rights other than continued tenure for the vesting period (one year).

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), 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 based on relevant market benchmarks.

Compound annual growth in Reported EPS (three 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.

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.

REVIEW OF THE GEIP

The GEIP operates over a three year cycle, originally approved for commencement from 1 January 2017. The GEIP has been reviewed for the next three year cycle, commencing 1 January 2020 and concluding 31 December 2022. Proposed changes to the LTIP will be recommended for approval at the 2020 AGM.

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 Investors, Corporate Governance.

5. REMUNERATION DETAILS FOR 2019

ACTUAL REMUNERATION RECEIVED IN 2019

2019 SHORT TERM INCENTIVE PLAN OUTCOMES – FINANCIAL

The financial targets in the 2019 Short Term Incentive Plan were aligned to our shareholder value proposition providing sustainable double-digit earnings growth for shareholders.

These financial targets form 87% of the total STI for 2019 for the CEO/Managing Director and 80% 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 revenue and earnings growth set by the Board. Accordingly, the financial component of the STI was not awarded to any executive KMP.

2019 SHORT TERM INCENTIVE PLAN OUTCOMES – INDIVIDUAL OBJECTIVES

The remaining 13% for the CEO/Managing Director and 20% 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 2019, clear performance objectives were set for the executive KMP that were critical to the delivery of the 2019 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 2019 has been appropriately reflected in the Short Term Incentive Plan outcomes.

THE TABLE BELOW SUMMARISES THE 2019 RESULTS FOR EXECUTIVE KMP AGAINST THE INDIVIDUAL KPI'S.

KPI'S	AREA OF FOCUS	ACHIEVEMENTS CONSISTENT WITH SHAREHOLDER VALUE PROPOSITION
Team	Centre Manager voluntary turnover Team engagement	Achieved positive results in terms of turnover and engagement, however these results were slightly below target
Quality	Assessment & Rating	Assessment & Rating results improved, however were below target
	Strategic execution	Key initiatives delivered within the education strategy and customer program with the roll-out of the Contact Centre. There was good progress made in relation to a number of foundational initiatives, however overall the target was not achieved
Customer	Occupancy	Whilst there was an improvement in like for like occupancy in 2019, the group did not achieve the occupancy target set
	NPS	Group NPS fell short of the 2019 target

The executive KMP were not awarded any STI payments in 2019 on the basis that the above KPIs were not achieved.

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 2 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	839,982	38,014	-	-	877,996
S Williams	458,267	22,264	-	-	480,531
J Ball	447,017	21,264	-	-	468,281

1) Base Salary, superannuation and non-monetary benefits such as motor vehicle and travel
2) STI paid during the 2019 financial year in respect of 2018 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 FIVE YEARS IS SUMMARISED IN THE TABLE BELOW.

	2015*	2016*	2017*	2018*	2019
	$'000	$'000	$'000	$'000	$'000
Total revenue	706,164	778,513	796,806	858,173	922,202
EBIT	160,423	160,691	150,878	132,184	159,420
Net Profit After Tax	88,581	80,265	80,581	71,831	62,589
Underlying EBIT (unaudited, Non IFRS)^	145,438	160,660	156,034	136,261	132,465
Underlying NPAT (unaudited, Non IFRS)^^	87,131	93,342	92,874	79,417	76,376
Underlying EPS (cents)	23.87	24.68	21.80	17.54	16.67
Annual dividend per share (cents)	24.0	24.0	18.0	14.5	12.75
Share price as at 31 December ($)	3.57	3.59	3.45	2.83	1.90
Total Fixed Remuneration executive KMP	2,163	2,297	1,816	1,712	1,745

^Underlying EBIT equals NPBT plus finance costs plus non-operating costs as per page 37.
^^ Underlying NPAT equals NPAT plus non-operating costs as per page 37.
*Prior year numbers have not been restated for AASB 16 *Leases* standard.

EXECUTIVE KMP REMUNERATION

	Year	Fixed Remuneration		
		Short-term		Post employment costs
Amount $		TFR	STI	Superannuation benefits
KMP				
G Carroll	2019	819,215	-	20,767
	2018	740,000	38,014	20,290
S Williams	2019	437,500	-	20,767
	2018	425,000	22,264	20,290
J Ball	2019	426,250	-	20,767
	2018	405,000	21,264	20,290
Total	**2019**	**1,682,965**	**-**	**62,301**
Total	**2018**	**1,570,000**	**81,542**	**60,870**

* The 2017 Performance Rights have been cancelled as the hurdle was not met.

The Total Fixed Remuneration of KMP is reviewed annually as part of the overall remuneration framework review. Based upon the Company's financial results for 2019 there has been no approved increase in base salary for the CEO and executive KMP for 2020.

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	60,000	15,000	75,000
B Bailison	Directly	25,000	-	25,000
S Forrester, AM	Directly	51,969	-	51,969
D Foster	Directly	22,976	-	22,976
G Carroll	Directly	110,000	10,000	120,000
M Zabel	Directly	15,000	14,000	29,000
J Cogin	Directly	19,000	-	19,000
KMP of G8 Education Limited				
Ordinary Shares				
S Williams	Directly	25,000	10,000	35,000
J Ball	Directly	-	-	-

				Proportion of total remuneration	
		Performance Rights	Total	Performance Based	Share Plan related
Termination payment	Total	Share based payment		%	%
-	839,982	(77,611)	762,371	-	-
-	798,304		798,304	5%	-
-	458,267	(19,426)	438,841	-	-
-	467,554		467,554	5%	-
-	447,017		447,017	-	-
-	446,554		446,554	5%	-
-	**1,745,266**	**(97,037)**	**1,648,229**		
-	**1,712,412**	**-**	**1,712,412**		

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	2019 Perf. Rights	10-May 19	3.18	-	198,119	198,119	630,018	2022
	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				**341,096**	**198,119**	**539,215**	**1,559,036**	
S Williams	2019 Perf. Rights	10-May 19	3.18	-	72,020	72,020	229,023	2022
	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				**131,252**	**72,020**	**203,272**	**612,969**	
J Ball	2019 Perf. Rights	10-May 19	3.18	-	70,251	70,251	223,398	2022
	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**	**70,251**	**194,745**	**572,808**	
TOTAL				**596,842**	**340,390**	**937,232**	**2,744,813**	

^ The Performance Rights are expensed over a three year period in line with the vesting conditions of the Performance Rights (refer Note 31). 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.

* The 2017 Performance Rights lapsed on 21 February 2020 as the performance hurdle was not met.

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 employee share scheme 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.

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. No increase in NED remuneration occurred in 2019 and no increase is proposed for 2020.
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 encourages 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 2019 is within the aggregate amount approved by shareholders at the AGM in May 2017 of $1,100,000 per annum including superannuation. No increase to the NED fee pool is being sought at the 2020 AGM.

NED FEES AND OTHER BENEFITS EXPLAINED

Elements	Details	2019* $	2018* $
Board fees per annum	Board Chairman fee	285,000	285,000
	Board NED Base fee	140,000	140,000
Committee fees per annum	Audit & Risk Chair fee	25,000	25,000
	Nomination Chair fee	25,000	25,000
	People and Culture Chair fee	25,000	25,000
	Audit & Risk Member fee	No fee	No fee
	Nomination Member fee	No fee	No fee
	People and Culture Member fee	No fee	No fee

* 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 NED fees are inclusive 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 and reimbursement for up to $1,000 per annum of relevant continued education expenses. Payments of $2,007 were made to NEDs throughout 2019 for travel allowances. No payments were made to NEDs during 2019 for extra services or special exertions.

NED TOTAL REMUNERATION PAID

	Year	Fees $	Superannuation benefits $	Total $
M Johnson (Chairman)*	2019	264,215	20,767	284,982
	2018	264,710	20,290	285,000
B Bailison	2019	150,685	14,315	165,000
	2018	150,685	14,315	165,000
S Forrester, AM	2019	150,685	14,315	165,000
	2018	150,685	14,315	165,000
D Foster	2019	150,685	14,315	165,000
	2018	150,685	14,315	165,000
M Zabel	2019	127,854	12,146	140,000
	2018	127,854	12,146	140,000
J Cogin	2019	127,854	12,146	140,000
	2018	127,854	12,146	140,000
Total	**2019**	**971,978**	**88,004**	**1,059,982**
Total	**2018**	**972,473**	**87,527**	**1,060,000**

There was no increase to NED fees in 2019.

*An error was made in reported remuneration for Mark Johnson in 2018 due to an adjustment of overpayments made in prior years. The correct reported total fees paid was $285,000. In addition, an underpayment to Mark Johnson in 2018 was also corrected in 2019.

MINIMUM SHAREHOLDING GUIDELINES

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

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

DIRECTOR'S TENURE

The Directors shall retire from office in accordance with the Constitution of G8 Education 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 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) and will report against the ASX CGC's Corporate Governance Principles and Recommendations (Fourth Edition) from the financial year ended 31 December 2020. The Board of directors guides and monitors the business and affairs of G8 Education on behalf of the shareholders by whom they are elected and to whom they are accountable. G8 Education's compliance with the Principles are found in the corporate governance section of our website: www.g8education.edu.au/investor-information/corporate-governance.

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 2019, G8 Education engaged Ernst & Young to perform non-audit services. 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. The Directors are satisfied the provision of non-audit services by the auditor, as set out in note 32, did not compromise the auditor independence requirements of the Corporations Act 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 for 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 57.

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 2020

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

As lead auditor for the audit of the financial report of G8 Education Limited for the financial year ended 31 December 2019, 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 2020

SECTION **TWO**

FINANCIAL **REPORT**

CONTENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Notes	Consolidated 2019 $'000	Consolidated 2018 $'000
Continuing operations			
Revenue	2	916,622	851,530
Other income	3	5,580	6,643
Total revenue		**922,202**	**858,173**
Expenses			
Employment costs	4	(542,801)	(507,105)
Occupancy		(11,752)	(108,915)
Direct costs of providing services		(67,632)	(61,622)
Depreciation	4	(100,117)	(16,483)
Other expenses		(39,986)	(31,449)
Finance costs	4	(73,914)	(28,973)
Total expenses		**(836,202)**	**(754,547)**
Profit before income tax		**86,000**	**103,626**
Income tax expense	5	(23,411)	(31,795)
Profit for the year attributable to members of the parent entity		**62,589**	**71,831**
		Cents	**Cents**
Basic earnings per share	7	13.66	15.87
Diluted earnings per share	7	13.66	15.87

The above Consolidated Income Statement should be read in conjunction with the accompanying notes. The Directors note that the 2019 results include the impact of accounting for AASB 16 *Leases*, whilst the 2018 results were prepared under the previous lease accounting standard requirements; refer notes 20 and 34 for further explanations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Consolidated 2019 $'000	Consolidated 2018 $'000
Profit for the year	**62,589**	**71,831**
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	672	2,778
Effective portion of changes in fair value of cash flow hedges	(1,885)	1,626
Other	(131)	-
Total other comprehensive income	**(1,344)**	**4,404**
Total comprehensive income for the year	**61,245**	**76,235**

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Notes	Consolidated 2019 $'000	Consolidated 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents	17	40,603	55,521
Trade and other receivables	8	29,936	36,502
Other current assets	9	11,232	14,120
Derivative financial instruments	19	-	10,837
Current tax asset		1,938	-
Total current assets		**83,709**	**116,980**
Non-current assets			
Property, plant and equipment	10	103,864	91,710
Right of use assets	20	606,219	-
Deferred tax assets	5	53,966	17,856
Intangible assets	15	1,193,160	1,134,456
Other non-current assets	9	5,894	25,547
Total non-current assets		**1,963,103**	**1,269,569**
Total assets		**2,046,812**	**1,386,549**
LIABILITIES			
Current liabilities			
Trade and other payables	11	54,840	67,911
Contract liabilities		7,148	8,517
Current tax liability		-	700
Borrowings	18	-	279,566
Lease liabilities	20	68,482	-
Provisions	12	34,264	29,988
Total current liabilities		**164,734**	**386,682**
Non-current liabilities			
Other payables	11	696	5,260
Borrowings	18	387,750	92,188
Lease liabilities	20	640,655	-
Provisions	12	13,087	8,935
Total non-current liabilities		**1,042,188**	**106,383**
Total liabilities		**1,206,922**	**493,065**
Net assets		**839,890**	**893,484**
EQUITY			
Contributed equity	21	907,255	893,567
Reserves		63,080	56,530
Retained earnings		(130,445)	(56,613)
Total equity		**839,890**	**893,484**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes. The Directors note that the 31 December 2019 balance sheet includes the impact of accounting for AASB 16 *Leases*, whilst the 31 December 2018 balance sheet was prepared under the previous lease accounting standard requirements; refer notes 20 and 34 for further explanations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Consolidated	Notes	Contributed Equity $'000	Hedging Reserves $'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 2018		**876,394**	**879**	**-**	**5,548**	**131**	**37,994**	**(55,611)**	**865,335**
Adjustment on adoption of AASB 9 *Financial Instruments*		**-**	**-**	**(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	21	17,173	-		-	-	-	-	17,173
Dividends provided for or paid	22	-	-		-	-	(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**
Balance 1 January 2019		**893,567**	**1,615**	**270**	**8,326**	**131**	**46,188**	**(56,613)**	**893,484**
Adjustment on adoption of AASB 16 *Leases*	34	**-**	**-**	**-**	**-**	**-**	**-**	**(70,326)**	**(70,326)**
Profit for the year		-	-	-	-	-	66,095	(3,506)	62,589
Other comprehensive income (net of tax)		-	(1,615)	(270)	672	(131)	-	-	(1,344)
Total comprehensive income for the year		**-**	**(1,615)**	**(270)**	**672**	**(131)**	**66,095**	**(3,506)**	**61,245**
Transactions with owners in their capacity as owners:									
Contributions of equity, net of transaction cost	21	13,688	-	-	-	-	-	-	13,688
Dividends provided for or paid	22	-	-	-	-	-	(58,201)	-	(58,201)
Total		**13,688**	**-**	**-**	**-**	**-**	**(58,201)**	**-**	**(44,513)**
Balance 31 December 2019		**907,255**	**-**	**-**	**8,998**	**-**	**54,082**	**(130,445)**	**839,890**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	Consolidated 2019 $'000	Consolidated 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		923,056	853,627
Payments to suppliers and employees (inclusive of GST)		(670,585)	(695,208)
Interest received		494	455
Interest paid		(69,388)	(23,003)
Income taxes paid		(29,587)	(29,924)
Net cash inflows from operating activities	23	**153,990**	**105,947**
Cash flows from investing activities			
Payments for purchase of businesses (net of cash acquired)	14	(49,506)	(52,613)
Payments for purchase of intangible assets	15	-	(3,250)
Net proceeds / (payments) for divestments		5,553	(128)
Payments for property plant and equipment		(39,767)	(36,819)
Net cash outflows from investing activities		**(83,720)**	**(92,810)**
Cash flows from financing activities			
Share issue costs	21	(33)	(47)
Dividends paid	22	(44,490)	(48,131)
Principal portion of lease payments		(63,748)	-
Repayment of corporate notes		(269,892)	(50,000)
Proceeds from issue of shares	21	-	139
Inflows from borrowings		295,000	195,000
Outflows of borrowings		(2,058)	(103,981)
Net cash outflows from financing activities		**(85,221)**	**(7,020)**
Net (decrease)/increase in cash and cash equivalents		**(14,951)**	**6,117**
Cash and cash equivalents at the beginning of the financial year		55,521	49,195
Effects of exchange rate changes on cash		33	209
Cash and cash equivalents at the end of the financial year	17	**40,603**	**55,521**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes. The Directors note that the 2019 results include the impact of accounting for AASB 16 *Leases*, whilst the 2018 results were prepared under the previous lease accounting standard requirements; refer notes 20 and 34 for further explanations.

INDEX TO NOTES TO THE FINANCIAL STATEMENTS

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 2019			
Revenue from external customers	900,834	15,788	916,622
Non-current assets*	1,869,647	39,490	1,909,137
31 December 2018			
Revenue from external customers	835,222	16,308	851,530
Non-current assets*	1,217,624	34,089	1,251,713

Timing of revenue recognition	Australia $'000	Foreign Country $'000	Total $'000
31 December 2019			
Revenue recognised at a point in time	884,615	15,783	900,398
Total revenue from contracts with customers	**884,615**	**15,783**	**900,398**
Other revenue	16,219	5	16,224
Total revenue	**900,834**	**15,788**	**916,622**
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**

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

1. FINANCIAL OVERVIEW

Note 2: Revenue

	Consolidated	
	2019	**2018**
	$'000	**$'000**
From continuing operations		
Sales revenue		
Revenue from child care centres	899,521	835,843
Funding relating to child care operations	14,660	13,499
	914,181	**849,342**
Other revenue		
Management fee Income	2,441	2,188
Total revenue continuing operations	**916,622**	**851,530**

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.

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) and the Singapore Government are recognised as and when a child attends a child care service, as under AASB 15 *Revenue from Contracts with Customers* 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).

(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 *Accounting for Government Grants and Disclosure of Government Assistance*.

(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.

1. FINANCIAL OVERVIEW

Note 3: Other Income

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Deferred consideration not payable (refer note 14)	681	2,199
Licence and other fees	7	4,029
Interest	494	415
Gain on divestment of leases	1,588	-
Translation gain on revaluation of notes issued in Singapore dollars and hedge FX movement	2,810	-
Total other income	**5,580**	**6,643**

Accounting policy

(i) Deferred consideration

Refer note 13 and 14.

(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	
	2019 $'000	**2018 $'000**
Profit before income tax includes the following specific expenses:		
Depreciation expense		
Depreciation expense of property, plant and equipment (refer note 10)	21,372	16,483
Depreciation expense of right-of-use assets (refer note 20)	78,745	-
	100,117	**16,483**
Employment costs		
Wages and salaries	499,244	466,636
Post-employment benefits	43,688	40,469
Share-based payment expense	(131)	-
	542,801	**507,105**
Finance costs		
Interest and finance charges	29,087	28,358
Interest expense on lease liabilities (refer note 20)	44,827	-
Foreign exchange loss	-	615
	73,914	**28,973**
Property rental expenses relating to operating leases		
Minimum lease payments	-	98,614
Expense relating to leases of low-value assets	3,206	-
Variable lease payments	560	-
Bad & doubtful debts (refer note 8)	1,461	896

The above should be read in conjunction with the notes 20 and 34. The Directors note that the 2019 results include the impact of accounting for AASB 16 *Leases*, whilst the 2018 results were prepared under the previous lease accounting standard requirements.

Note 5: Income Tax and Deferred Tax Assets

	Consolidated	
	2019 $'000	2018 $'000
(a) Income tax expense		
Current tax	30,600	34,088
Deferred tax	(7,353)	(2,292)
Under / (over) provision prior year	164	(1)
Income tax expense	**23,411**	**31,795**
Income tax expense is attributable to:		
Profit from continuing operations	23,411	31,795
	23,411	**31,795**
Deferred income tax expense included in income tax expense comprises:		
(Increase) / decrease in deferred tax assets	(7,353)	(2,292)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	86,000	103,626
Tax on operations at the Australian tax rate of 30% (2018: 30%)	25,800	31,088
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Adjustments relating to prior year	164	(1)
Entertainment	256	224
Deferred consideration not payable	(204)	(403)
Acquisition and divestment related costs - not deductible	2,224	968
Recognition of losses from previously acquired entities	(3,435)	-
Recognition of tax benefit from financial instruments	(1,031)	670
Other non-allowable items	(288)	(668)
Difference in overseas tax rates	(75)	(83)
Income tax expense	**23,411**	**31,795**
Weighted average tax rate	27.2%	30.7%
(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[1]	28,757	(656)

[1]This mainly relates to AASB 16 *Leases* adoption, refer to note 34(g) for further details.

1. FINANCIAL OVERVIEW

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

	Consolidated 2019 $'000	Consolidated 2018 $'000
Deferred tax asset		
The balance comprises temporary differences attributable to:		
Employee benefits	10,957	10,017
Cash flow hedging	-	168
Share issue transaction costs	996	998
Total	**11,953**	**11,183**
Other		
s40-880 deductions	737	670
Provision for doubtful debts	594	492
Accrued expenses	4,309	4,250
Foreign exchange loss (derivatives)	-	1,850
Lease liabilities	211,745	-
Recognised losses transferred in from previously acquired entities	3,435	-
Provisions	3,225	1,621
Total other	**224,045**	**8,883**
Total deferred tax assets	**235,998**	**20,066**
Deferred tax liability		
Buildings	(211)	(220)
Right of use / make good assets	(181,208)	(1,414)
Prepayments	(613)	(576)
Total deferred tax liability	**(182,032)**	**(2,210)**
Net deferred tax asset	**53,966**	**17,856**

	Employee Benefits $'000	Share Issue Transaction Costs $'000	Lease liabilities net of right of use / make good assets $'000	Other $'000	Total $'000
At 1 January 2018	**8,764**	**1,861**	**(2,469)**	**8,064**	**16,220**
Charged to the consolidated income statement	1,253	(877)	107	1,809	2,292
Charged directly to equity	-	14	-	(670)	(656)
At 31 December 2018	**10,017**	**998**	**(2,362)**	**9,203**	**17,856**
Charged to the consolidated income statement	940	(12)	4,152	2,273	7,353
Charged directly to equity (refer note 34)	-	10	28,747	-	28,757
At 31 December 2019	**10,957**	**996**	**30,537**	**11,476**	**53,966**

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

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.

IFRIC 23 Uncertainty over Income Tax Treatments

The Group applies judgement in identifying uncertainties over income tax treatments. As the Group operates in a multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include treatment of related party transactions and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing reviews, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

(iii) Tax related contingencies

At 31 December 2019 there are no tax related contingencies (2018: 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.

1. FINANCIAL OVERVIEW

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

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: Profit for the Year

Profit for the year includes the following post-tax items that are unusual because of their nature, size or incidence:

	Consolidated	
	2019 $'000	2018 $'000
Expenses		
Acquisition related expenses	5,088	5,451
Borrowing costs expense	2,476	3,078
Loss on disposal of assets/centres	4,034	825
Foreign currency translation loss	-	431
Income		
Gain on divestment of leases	(1,588)	-
Contingent consideration not paid	(681)	(2,199)
Foreign currency translation gain	(1,967)	-
Net total post-tax expense	**7,362**	**7,586**

1. FINANCIAL OVERVIEW

Note 7: Earnings per Share

	Consolidated 2019 CPS	Consolidated 2018 CPS
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company	13.66	15.87
(b) Diluted earnings per share		
Profit from continuing operation attributable to the ordinary equity holders of the Company	13.66	15.87
	$'000	**$'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	62,589	71,831
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	62,589	71,831
	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	**458,050,791**	**452,819,479**
Adjustments for calculation of diluted earnings per share:		
Performance Rights*	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**458,050,791**	**452,819,479**

* If 31 December 2019 or 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.

1. FINANCIAL OVERVIEW

Note 8: Current Assets - Trade and Other Receivables

	Consolidated	
	2019	2018
	$'000	$'000
Trade receivables	18,605	24,092
Allowance for impairment of receivables (note (a) below)	(2,063)	(1,721)
	16,542	**22,371**
GST receivable	2,145	1,633
Other debtors	11,249	12,498
Total trade and other receivables	**29,936**	**36,502**

a) Impaired trade receivables

As at 31 December 2019, current trade receivables of the Group were assessed for impairment. Movements in the allowance for expected credit losses of receivables are as follows:

	Consolidated	
	2019	2018
	$'000	$'000
Opening balance	1,721	1,013
Allowance for impairment recognised during the year (refer note 4)	1,461	896
Receivables written off during the year as uncollectable	(1,119)	(188)
Closing balance	**2,063**	**1,721**

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.

(b) Past due but not impaired

As at 31 December 2019, trade receivables of $5.3 million (2018: $6.0 million) 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:

	2019	2018
	$'000	$'000
Up to 3 months	5,196	5,826
3 to 6 months	2	51
Over 6 months	97	169
	5,295	**6,046**

(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 16.

Accounting policy

A trade receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

Note 8: Current Assets - Trade and Other Receivables (continued)

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

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

Under the Child Care Subsidy (CCS), 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.

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 9: Current and Non-Current Assets - Other

	Consolidated	
	2019 $'000	2018 $'000
Current		
Prepayments	8,679	7,062
Inventory	1,507	5,698
Deposits	1,046	1,360
Total other current assets	**11,232**	**14,120**
Non-current		
Deposits on acquisitions	2,669	24,200
Prepayments	356	692
Inventory	1,762	-
Deposits	1,107	655
Total other non-current assets	**5,894**	**25,547**
Total other current and non-current assets	**17,126**	**39,667**

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.

1. FINANCIAL OVERVIEW

Note 10: Non-Current Assets – Property, Plant and Equipment

	Buildings $'000	Vehicles $'000	Furniture, fittings and equipment $'000	Make good $'000	Total $'000
Consolidated					
Year ended 31 December 2019					
Opening net book amount (reported)	3,994	383	82,617	4,716	91,710
Transfer to right of use asset (refer note 34)	-	-	-	(4,716)	(4,716)
Opening net book amount (adjusted)	**3,994**	**383**	**82,617**	**-**	**86,994**
Additions through business combinations (refer note 14)	-	-	1,171	-	1,171
Additions - other	146	-	40,751	-	40,897
Disposals	(3)	(18)	(3,816)	-	(3,837)
Depreciation charge	(157)	(97)	(21,118)	-	(21,372)
Effect of foreign exchange on depreciation	-	-	11	-	11
Closing net book amount	**3,980**	**268**	**99,616**	**-**	**103,864**
At 31 December 2019					
Cost	5,189	1,394	183,895	-	190,478
Accumulated depreciation	(1,209)	(1,126)	(84,279)	-	(86,614)
Net book amount	**3,980**	**268**	**99,616**	**-**	**103,864**

	Buildings $'000	Vehicles $'000	Furniture, fittings and equipment $'000	Make Good $'000	Total $'000
Consolidated					
Year ended 31 December 2018					
Opening net book amount	4,146	251	54,429	5,080	63,906
Additions through business combinations	-	276	6,706	-	6,982
Provision	-	-	-	170	170
Additions - other	-	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**

1. FINANCIAL OVERVIEW

Note 10: Non-Current Assets – Property, Plant and Equipment (continued)

(a) Leasehold Improvements

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

	Consolidated	
	2019 $'000	2018 $'000
Cost	98,999	91,681
Accumulated depreciation	(37,785)	(30,908)
Net book amount	**61,214**	**60,773**

(b) Non-current assets pledged as security

Refer to note 18 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 and impairment. 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 12(b) for accounting policy on make good.

1. FINANCIAL OVERVIEW

Note 11: Current and Non-Current Liabilities - Trade and Other Payables

	Notes	Consolidated 2019 $'000	Consolidated 2018 $'000
Trade payables (i)		18,201	16,742
Contingent consideration	14	797	1,969
Centre enrolment advances		2,494	3,286
Other payables and accruals (i)		33,348	42,886
Acquisitions payables		-	3,028
Total current		**54,840**	**67,911**
Lease accounting liability (ii)		-	4,542
Contingent consideration	14	696	718
Total non-current		**696**	**5,260**

Accounting policy

These amounts (excluding contingent consideration and acquisition payables) 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 the previous lease accounting standard requirements were recognised as a liability and amortised on a straight-line basis over the life of the lease term. 2019 has been accounted for under the new AASB 16 *Leases* standard (refer note 20).

1. FINANCIAL OVERVIEW

Note 12: Current and Non-Current Liabilities - Provisions

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current liabilities		
Employee benefits (note (a) below)	34,264	29,988
Total current	**34,264**	**29,988**
Non-current liability		
Employee benefits	2,338	3,537
Make good provision (note (b) below)	10,749	5,398
Total non-current	**13,087**	**8,935**

(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.

1. FINANCIAL OVERVIEW

Note 12: Current and Non-Current Liabilities – Provisions (continued)

	Consolidated	
	2019	2018
	$'000	$'000
Leave obligations expected to be settled after 12 months	4,422	4,454
	4,422	**4,454**

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.

2. BUSINESS COMBINATIONS, GOODWILL & IMPAIRMENT

Note 13: 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 15. The recoverable amounts of goodwill have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 15 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.

(iv) 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.

(v) Leases - Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements).

(vi) Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to

2. BUSINESS COMBINATIONS, GOODWILL & IMPAIRMENT

Note 13: Critical Accounting Estimates and Judgements (continued)

the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

(vii) Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

2. BUSINESS COMBINATIONS, GOODWILL & IMPAIRMENT

Note 14: Business Combinations

The acquisitions below have increased the Group's size 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 15 centres in various states as outlined below:

Number of centres	8	5	2	15
State	VIC	NSW	QLD	TOTAL
	$'000	$'000	$'000	$'000
Purchase consideration				
Cash consideration	39,411	22,294	6,233	67,938
Purchase price adjustments (to cash)	(1,042)	(1,393)	(205)	(2,640)
Contingent consideration	-	722	-	722
Total purchase consideration	**38,369**	**21,623**	**6,028**	**66,020**
Assets and liabilities acquired at fair value				
Property, plant and equipment	704	444	23	1,171
Right of use assets	39,402	28,836	8,321	76,559
Lease liabilities	(39,402)	(28,836)	(8,321)	(76,559)
Employee benefit liabilities	(28)	-	-	(28)
Net identifiable assets/(liabilities) acquired	**676**	**444**	**23**	**1,143**
Goodwill	37,693	21,179	6,005	64,877
	38,369	**21,623**	**6,028**	**66,020**
Revenue and profit contribution from the date of acquisition to period end 31 December 2019 (i)				
Revenue	6,539	1,896	6	8,441
Profit/(Loss) before tax	(3,814)	(2,647)	(675)	(7,136)

Refer to note 13 in the Annual Report 2018 for 2018 Business Combinations disclosure.

(i) The loss for the period was $7.1 million, the centres commenced operating on acquisition by G8 Education, therefore there is no full year operating results to report.

Acquisition related expenses of $5.1 million (2018: $5.5 million) are included in the consolidated income statement.

As at 31 December 2019 accounting for 2019 acquisitions are provisional in nature due to the finalisation of determining the fair value of all assets and liabilities acquired.

No goodwill is deductible for tax purposes.

The Group had payments for purchase of businesses (net of cash acquired) of $49.5 million in 2019 relating to 2019 acquisitions and contingent consideration payments on prior year acquisitions. Cash consideration payments for 2019 acquisitions were made both in the current year and also in previous years, with $16.7 million paid in prior years for deposits and quantity surveyor payments for 2019 acquisitions. Prior year payments relating to 2019 acquisitions were classified as 'deposits on acquisitions' in the prior year balance sheet - refer note 9.

2. BUSINESS COMBINATIONS, GOODWILL & IMPAIRMENT

Note 14: Business Combinations (continued)

During the year accounting adjustments were made to provisional amounts recognised in 2018 as outlined below:

	2018 Adjustments Australia $'000
Purchase consideration	
Purchase price adjustments (to cash)	20
Contingent consideration	916
Total purchase consideration	**936**
Net identifiable assets/(liabilities) acquired	-
Goodwill	936
	936

The above amounts relate to accounting adjustments for assets and liabilities taken on at acquisition date but not finalised at 31 December 2018.

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 2019	Total potential contingent consideration payable $'000	Carrying value $'000	Conditions
Acquisition of 1 centre *	722	722	24 month performance hurdle based on EBIT
Acquisition of 1 centre **	975	771	19 years occupancy hurdle based on licence capacity
Total	1,697	1,493	

* The Group has assessed these hurdles will be reached within 12 months and accordingly have recorded these amounts as current.
** The Group has assessed that a portion of this amount should be recorded as current.

Note 14: Business Combinations (continued)

Movement in Contingent Consideration

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

	Consolidated	
	2019 $'000	2018 $'000
Financial liability for contingent consideration as at 31 December	2,687	14,301
Write back of contingent consideration to the consolidated income statement for performance condition not met - other income (refer note 3)	(681)	(2,199)
Increase / (write back) of contingent consideration to goodwill for performance condition met / (not met)	693	(805)
Fair value adjustments	127	38
Contingent consideration paid	(2,055)	(14,902)
Contingent consideration for new acquisitions	722	6,254
Total contingent consideration payable as at 31 December	**1,493**	**2,687**

Accounting policy

The acquisition method of accounting is used to account for all business combinations. Purchase consideration 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.

2. BUSINESS COMBINATIONS, GOODWILL & IMPAIRMENT

Note 15: Non-Current Assets – Intangible assets

	Goodwill $'000	Intellectual Property $'000	Total $'000
Consolidated			
Year ended 31 December 2019			
Opening net book amount	1,131,206	3,250	1,134,456
Additions	64,877	-	64,877
Adjustments in respect of prior year acquisitions	936	-	936
Disposal of centres	(7,747)	-	(7,747)
Exchange differences	638	-	638
Closing net book amount	**1,189,910**	**3,250**	**1,193,160**
At 31 December 2019			
Cost	1,200,962	3,250	1,204,212
Accumulated impairment	(11,052)	-	(11,052)
Net book amount	**1,189,910**	**3,250**	**1,193,160**

	Goodwill $'000	Intellectual Property $'000	Total $'000
Consolidated			
Year ended 31 December 2018			
Opening net book amount	1,087,969	-	1,087,969
Additions	42,230	3,250	45,480
Adjustments in respect of prior year acquisitions	(1,617)	-	(1,617)
Disposal of centres	-	-	-
Exchange differences	2,624	-	2,624
Closing net book amount	**1,131,206**	**3,250**	**1,134,456**
At 31 December 2018			
Cost	1,142,258	3,250	1,145,508
Accumulated impairment	(11,052)	-	(11,052)
Net book amount	**1,131,206**	**3,250**	**1,134,456**

The Group divested or closed 41 centres during 2019 (2018: 8), this includes the sale of 25 centres in Western Australia to Sparrow Early Learning Pty Ltd. The Group announced that the sale of the 25 centres had been completed on 20 December 2019 for proceeds of approximately $6.4 million. The results of the 25 centres in Western Australia and the other divested centres were not material and therefore did not meet the conditions under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* to be disclosed as discontinued operations.

2. BUSINESS COMBINATIONS, GOODWILL & IMPAIRMENT

Note 15: Non-Current Assets – Intangible assets (continued)

(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 2020 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[1] 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 rental payments 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% (2018: 12%);
- Full support office costs allocation; and
- Forecast period of 3 years plus a terminal growth calculation with a growth rate of 2% (2018: 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 2019 (2018: nil).

The Group has completed a sensitivity analysis on its impairment model.

The calculation of value in use is most sensitive to the following assumptions:

- Occupancy %
- Wages expense
- Pre-tax discount rate

Key changes to inputs that would result in no headroom are:

- A net movement in average occupancy and wages expense leading to a 12.6% decrease in forecast EBITDA[1]; or
- An increase in pre-tax discount rate of 2.5%

[1] Measured on a pre-AASB 16 *Leases* basis

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 16: 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. During the year the Group used certain 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	Derivatives used for fair value hedges	Financial assets at fair value	Financial assets at amortised cost	Total
	$'000	$'000	$'000	$'000	$'000
2019					
Financial assets					
Cash and cash equivalents	-	-	-	40,603	40,603
Trade and other receivables	-	-	-	29,936	29,936
Deposits on acquisitions	-	-	2,669	-	2,669
	-	**-**	**2,669**	**70,539**	**73,208**
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**

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 16: Financial Risk Management (continued)

	Derivatives used for cash flow hedges $'000	Derivatives used for fair value hedges $'000	Liabilities at fair value $'000	Liabilities at amortised cost $'000	Total $'000
2019					
Financial liabilities					
Trade and other payables	-	-	-	36,762	36,762
Borrowings	-	-	-	387,750	387,750
Contingent consideration	-	-	1,493	-	1,493
Lease liabilities	-	-	-	709,783	709,783
	-	**-**	**1,493**	**1,134,295**	**1,135,788**
2018					
Financial liabilities					
Trade and other payables	-	-	-	36,733	36,733
Borrowings	-	-	-	371,754	371,754
Contingent consideration	-	-	2,687	-	2,687
	-	**-**	**2,687**	**408,487**	**411,174**

(a) Foreign exchange risk

The Group has operations 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 carrying amounts of the Group's financial assets and liabilities that are denominated in other foreign currencies are set out below:

	2019 SGD $'000	2018 SGD $'000
Cash and cash equivalents	2,337	2,298
Trade receivables	1,025	896
Borrowings*	-	(270,000)
Trade payables	(260)	(161)
	3,102	**(266,967)**

* The Group repaid the SGD$270 million Singapore notes during the 2019 year. The fair value movement on the cross currency swap relating to the principal SGD$270 million Singapore notes repayment was treated as a fair value hedge with all movements being recorded through finance costs. The coupon payments associated with the corporate notes were designated as a cash flow hedge with all movements being recorded in other comprehensive income.

On 18 May 2016, the Group purchased an AUD/SGD call option with a notional value of SGD$270 million with a strike price of $1.175 and maturity date of 18 May 2019. The foreign exchange option was 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 was recognised through the income statement. This option was closed on 18 May 2019.

The SGD to AUD exchange rate at 31 December 2019 was 1.0592 (2018: 1.0394).

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 16: Financial Risk Management (continued)

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	2019 $'000	2018 $'000
Exchange gains/(losses) on foreign currency borrowing included in finance costs	-	(11,396)
Net revaluation of cross currency swap included in finance costs - SGD borrowings	-	11,396
FX gain on settlement of corporate notes included in other income	2,810	-
Net revaluation of the AUD/SGD call option included in finance costs	-	(622)
	2,810	**(622)**

Net gains/(losses) recognised in other comprehensive income	2019 $'000	2018 $'000
Translation of foreign operations	672	2,778
Maturity of the cross currency swap - SGD borrowings	(1,885)	1,626

Sensitivity

As shown in the table above, as at 31 December 2019, the Group has financial assets and liabilities that are denominated in SGD. However, these SGD financial assets and liabilities are denominated in the functional currency of the relevant subsidiary and thus there is no foreign exchange exposure as at 31 December 2019 relating to changes in AUD/SGD exchange rates.

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.

Note 16: Financial Risk Management (continued)

(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 2019 and 2018, the Group's borrowings at variable rates were 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 *Financial Instruments*, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

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

	31 December 2019		31 December 2018	
	Balance	Total Loans	Balance	Total Loans
	$'000	%	$'000	%
Subordinated Facility 2	342,200	88%	47,200	13%
Net exposure to cash flow interest rate risk	**342,200**	**88%**	**47,200**	**13%**

An analysis by maturities is provided in note 16(d).

Sensitivity

At 31 December 2019, 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 $598,850 higher or $598,850 lower respectively (post-tax profit for the year for 2018: $82,374 higher or $82,374 lower respectively).

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 16: Financial Risk Management (continued)

(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 the impaired trade receivables is performed in note 8.

(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.

(i) Financing arrangements

Details of financing arrangements are disclosed in note 18.

(ii) 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.

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 16: Financial Risk Management (continued)

Contractual maturities of financial liabilities

Consolidated 2019 $'000	0 to 6 months	6 to 12 months	Between 1 and 2 years	Between 2 and 5 years	>5years	Total contractual cash flows	Carrying amount
Non derivative							
Syndicated debt facilities	8,716	8,716	111,797	278,107	56,675	464,011	395,000
Contingent consideration	722	75	75	225	600	1,697	1,493
Trade and other payables	36,762	-	-	-	-	36,762	36,762
Lease liabilities	56,091	55,935	111,718	318,972	465,800	1,008,516	709,783

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 contractual cash 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)

(e) Fair value measurements

The fair value of financial assets and financial liabilities (excluding lease 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:

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

b) 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

c) 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 2019 and 31 December 2018:

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 16: Financial Risk Management (continued)

At 31 December 2019 $'000	Level 1	Level 2	Level 3	Total
Asset				
Deposit on acquisitions* (refer note 9)	-	-	2,669	2,669
Liabilities				
Contingent consideration (refer note 14)	-	-	1,493	1,493

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				
Contingent consideration (refer note 14)	-	-	2,687	2,687

*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

During the prior year the fair value movement on the principal repayment was treated as a fair value hedge with all movements up until 18 May 2019 being recorded through finance costs. The coupon payments associated with the corporate notes were 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 million with a strike price of $1.175 and maturity date of 18 May 2019. The foreign exchange option was 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 was recognised through the income statement. This option was closed on 18 May 2019.

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 17: Current Assets - Cash and Cash Equivalents

	Consolidated	
	2019 $'000	2018 $'000
Cash at bank and in hand	40,603	38,437
Deposits at call	-	17,084
Total cash and cash equivalents	**40,603**	**55,521**

(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	
	2019 $'000	2018 $'000
Balance as per above	40,603	55,521
Balance as per statement of cash flows	**40,603**	**55,521**

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.

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 18: Current and Non-Current Liabilities - Borrowings

	2019			2018		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Unsecured						
Corporate Notes (a)	-	-	**-**	280,678	-	**280,678**
Total unsecured borrowings	**-**	**-**	**-**	**280,678**	**-**	**280,678**
Secured						
Syndicated debt facilities (b)	-	395,000	**395,000**	-	100,000	**100,000**
Total secured borrowings	**-**	**395,000**	**395,000**	**-**	**100,000**	**100,000**
Borrowing costs	-	(7,250)	**(7,250)**	(1,112)	(7,812)	**(8,924)**
Total borrowings	**-**	**387,750**	**387,750**	**279,566**	**92,188**	**371,754**

(a) Corporate notes

G8 Education repaid the following Corporate Notes during the period:

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 18: Current and Non-Current Liabilities - Borrowings (continued)

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 were fully hedged at a fixed interest rate of 6.54% on AUD $269 million

Details of the Group's exposure to foreign exchange on Singapore denominated borrowings terms are set out in note 16(a) and (e).

(b) Syndicated debt facilities

During 2018 the Group entered into a $400 million senior syndicated facility, a $100 million subordinated facility and a $50 million 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 is payable on the unused and uncancelled amount of the facilities.

The Group had $395 million drawn from the $500 million syndicated debt facilities as at 31 December 2019.

(c) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 16(b).

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

		Consolidated	
		2019	2018
Current	**Notes**	**$'000**	**$'000**
Floating charge			
Cash and cash equivalents	17	40,603	55,521
Trade and other receivables	8	29,936	36,502
Other current assets	9	11,232	14,120
Total current assets pledged as security		**81,771**	**106,143**
Non-current			
First mortgage			
Buildings	10	3,980	3,994
Floating charge			
Other non-current assets	9	5,894	25,547
Vehicles, furniture, fittings and equipment	10	99,884	83,000
Total non-current assets pledged as security		**109,758**	**112,541**
Total assets pledged as security		**191,529**	**218,684**

(d) Financing arrangements

As at 31 December 2019 the following lines of credit were in place:

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 18: Current and Non-Current Liabilities - Borrowings (continued)

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Credit standby arrangements		
Total facilities		
Credit cards	500	500
Used at balance date	(412)	(377)
Unused at balance date	**88**	**123**
Syndicated debt facilities		
Total facilities	500,000	500,000
Used at balance date	(395,000)	(100,000)
Unused at balance date	**105,000**	**400,000**
Bank guarantee facilities		
Total facilities	50,000	50,000
Used at balance date	(36,321)	(33,233)
Unused at balance date	**13,679**	**16,767**
Corporate Notes		
Total facilities	-	280,678
Used at balance date	-	(280,678)
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.

Accounting policy

Measurement

Borrowings are initially recognised at fair value, net of transaction costs 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.

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 19: Derivative Financial Instruments

	Consolidated	
	2019 $'000	2018 $'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**

The Group was 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 16).

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 19. 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 was no ineffectiveness in the year 2019.

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.

Note 20: Right of Use Assets and Lease Liabilities

The right of use assets and lease liabilities have arisen upon adoption of AASB 16 *Leases* from 1 January 2019. Refer to note 34 for further information.

(a) Right of use assets

Set out below are the carrying amounts of right-of-use assets recognised on adoption of AASB 16 and movements during the year:

	Leased property $'000	Leased vehicle $'000	Total $'000
Adjustment on adoption of AASB 16 as at 1 January 2019	**611,810**	**1,947**	**613,757**
Additions through business combinations	76,559	-	76,559
Additions through make good	4,755		4,755
Additions - other	1,279	206	1,485
Disposals or terminations	(20,287)	-	(20,287)
Depreciation charge	(77,138)	(1,607)	(78,745)
Modification to lease terms	132	944	1,076
Variable lease payments reassessment	7,502	-	7,502
Effects of exchange rate changes	117	-	117
Closing net book amount as at 31 December 2019	**604,729**	**1,490**	**606,219**
Cost	682,403	3,097	685,500
Accumulated depreciation	(77,674)	(1,607)	(79,281)
As at 31 December 2019	**604,729**	**1,490**	**606,219**

(b) Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	Consolidated	
	31 December 2019 $'000	1 January 2019 $'000
Current lease liabilities	68,482	63,584
Non-current lease liabilities	640,655	647,214
Total lease liabilities	**709,137**	**710,798**

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 20: Right of Use Assets and Lease Liabilities (continued)

	Total $'000
Adjustment on adoption of AASB 16 as at 1 January 2019	**710,798**
Additions through business combinations	76,559
Additions - other	1,485
Disposals or terminations	(26,236)
Accretion of interest	44,827
Payments	(108,575)
Modification to lease terms	1,076
Variable lease payments reassessment	9,084
Effects of exchange rate changes	119
Closing net book amount as at 31 December 2019	**709,137**

The maturity analysis of lease liabilities are disclosed in note 16(d). Also refer to note 34(g).

(c) Amounts recognised in profit and loss

The following are the amounts recognised in profit and loss:

	Consolidated 2019 $'000
Depreciation expense of right-of-use assets	78,745
Interest expense on lease liabilities	44,827
Expense relating to leases of low-value assets (included in direct costs)	3,206
Variable lease payments (included in occupancy and other expenses)	560
(Gain)/Loss on surrender/termination of leases	(1,588)
(Gain)/Loss on sale of assets	(4,957)
Total amount recognised in profit and loss	**120,793**

The Group had total cash outflows for leases of approximately $112.3 million in 2019 - the principal portion of lease payments totalled $63.7 million, interest payments totalled $44.8 million and other payments relating to low-value assets and variable lease payments totalled approximately $3.8 million (included in payments to suppliers and employees).

Note 20: Right of Use Assets and Lease Liabilities (continued)

Accounting policy

Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right of use assets are depreciated on a straight-line basis over the shorter of useful life and the lease term.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable and variable lease payments that depend on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group currently does not have any short-term leases.

The Group applies the low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 21: Contributed Equity

(a) Share capital

	Consolidated		Consolidated	
	2019 No. of Shares	2018 No. of Shares	2019 $'000	2018 $'000
Ordinary shares fully paid	460,176,931	455,379,630	907,255	893,567

(b) Movements in ordinary share capital

Details	Number of Shares '000	$'000
31 December 2017 balance	**448,496**	**876,394**
Dividend reinvestment plan	6,843	17,129
Issuance of shares (see note 21(c))	41	139
Transaction costs of shares issued	-	(47)
Deferred tax credit recognised directly in equity	-	(48)
31 December 2018 balance	**455,380**	**893,567**
Dividend reinvestment plan	4,797	13,711
Transaction costs of shares issued	-	(33)
Deferred tax credit recognised directly in equity	-	10
31 December 2019 balance	**460,177**	**907,255**

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

	Consolidated	
	2019 Shares '000	2018 Shares '000
Balance at the beginning of the financial year	-	41
Shares transferred to the Group under the plan*	-	(41)
Total outstanding at the end of the financial year	**-**	**-**

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

(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.

Note 21: Contributed Equity (continued)

(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 on a pre-AASB 16 *Leases* basis. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the pre-AASB 16 *Leases* balance sheet plus net debt.

The gearing ratios at 31 December were as follows on a pre-AASB 16 *Leases* basis:

		Consolidated (Unaudited, Non IFRS)	
	Notes	2019 $'000	2018 $'000
Borrowings	18	387,750	371,754
Less: cash and cash equivalents	17	(40,603)	(55,521)
Net debt		347,147	316,233
Total equity (pre-AASB 16 *Leases*)		918,488	893,482
Total capital (pre-AASB 16 *Leases*)		**1,265,635**	**1,209,715**
Gearing ratio (pre-AASB 16 *Leases*)		**27%**	**26%**

The Directors assess an appropriate level of gearing based on a leverage rate of less than 45% (on a pre-AASB 16 *Leases* basis).

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 22: Dividends

(a) Ordinary shares

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

Dividends	CPS	Total dividend $'000
Financial year 2019		
2018 final dividend (paid on 5 April 2019)	8.0	36,430
2019 interim dividend (paid on 3 October 2019)	4.75	21,771
Dividend paid during the year ended 31 December 2019		**58,201**
Cash		44,490
Dividend reinvestment plan		13,711
Dividend paid during the year ended 31 December 2019		**58,201**

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**

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.

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 22: Dividends (continued)

(b) Franking credits

	Consolidated		Parent Entity	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2018: 30%)	13,679	8,025	13,679	8,025

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.

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 23: Reconciliation of Cash Flows

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

	Consolidated 2019 $'000	Consolidated 2018 $'000
Profit for the year	62,589	71,831
Depreciation	100,117	16,483
Write back of deferred consideration not payable	(681)	(2,199)
(Gain)/Loss on divestment of leases	(1,588)	-
Translation gain on revaluation of notes issued in Singapore dollars and hedge FX movement	(2,810)	-
Net loss on sale of assets	4,034	729
Fair value adjustment to derivatives	-	622
Amortised borrowings costs	3,539	4,200
Bank guarantee fees	-	576
Brokerage and legal fees treated as investing cashflows	970	1,179
Non- cash employee benefits expense - share based payments	(131)	-
Write back of make good costs	-	147
(Increase)/decrease in deferred tax asset	(7,353)	(1,636)
(Increase)/decrease in trade and other debtors	7,125	(4,883)
Increase/(decrease) in trade and other creditors	(17,635)	11,953
Increase/(decrease) in contract liabilities	(1,369)	(683)
Increase/(decrease) in provisions	8,428	4,119
Increase/(decrease) in provision for income taxes payable	(1,238)	3,508
Net exchange differences	(7)	1
Net cash inflows from operating activities	**153,990**	**105,947**

Changes in liabilities arising from financing activities

	Opening balance 1 Jan 2019 $'000	Cash flows $'000	Foreign exchange movement $'000	Change in fair value $'000	New Leases $'000	Considered interest in operating cash flows $'000	Other $'000	Closing balance 31 Dec 2019 $'000
Current lease liabilities	63,584	(108,575)	119	68,482	-	44,827	45	**68,482**
Non-current lease liabilities	647,214	-	-	(68,482)	78,044	-	(16,121)	**640,655**
Current interest bearing loans and borrowing	279,566	(269,892)	(11,397)	-	-	-	1,723	**-**
Non-current interest bearing loans and borrowings	92,188	292,943	-	-	-	-	2,619	**387,750**
Derivative liability	(10,837)	-	-	10,837	-	-	-	**-**

3. CAPITAL STRUCTURE & FINANCIAL RISK MANAGEMENT

Note 23: Reconciliation of Cash Flows (continued)

	Opening balance 1 Jan 2018	Cash flows	Foreign exchange movement	Change in fair value	Reclass	Considered interest in operating cash flows	Other	Closing balance 31 Dec 2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'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)**

4. GROUP STRUCTURE

Note 24: 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 34(b).

Name of Entity	Country of incorporation	Class of Shares/ Units	2019 %	2018 %
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

4. GROUP STRUCTURE

Note 24: Subsidiaries (continued)

Name of Entity	Country of incorporation	Class of Shares/ Units	2019 %	2018 %
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
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

4. GROUP STRUCTURE

Note 24: Subsidiaries (continued)

Name of Entity	Country of incorporation	Class of Shares/ Units	2019 %	2018 %
Kindy Kids Village Trust	Australia	Ordinary	100	100
Kindy Kids Long Day Care 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	100
Homebush CCC Unit Trust	Australia	Ordinary	100	100
Dendy Street Childcare Pty Ltd	Australia	Ordinary	100	-
Childcare Saver Pty Ltd	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 26.

4. GROUP STRUCTURE

Note 25: Parent Entity Disclosures

As at, and throughout the financial year ended 31 December 2019 the parent entity of the Group was G8 Education Limited.

	2019 $'000	2018 $'000
Result of parent entity		
Profit for the year after tax	66,095	71,460
Other comprehensive income	(2,016)	4,404
Total comprehensive income for the year	**64,079**	**75,864**
Financial position of parent entity at year end		
Current assets	69,308	96,420
Non-current assets	1,816,304	1,281,282
Total assets	**1,885,612**	**1,377,702**
Current liabilities	150,365	368,735
Non-current liabilities	904,503	123,400
Total liabilities	**1,054,868**	**492,135**
Total equity of parent entity comprising of:		
Contributed equity	907,255	893,567
Reserves	54,083	48,825
Accumulated losses	(130,594)	(56,825)
Total equity	**830,744**	**885,567**

Parent entity contingencies

Refer to note 28 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 26.

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.

4. GROUP STRUCTURE

Note 26: Deed of Cross Guarantee

All subsidiaries identified in note 24 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 2019 of the closed group:

(a) Consolidated statements of comprehensive income

	2019 $'000	2018 $'000
Continuing operations		
Revenue	900,834	835,221
Other income	5,572	6,640
Total revenue	**906,406**	**841,861**
Expenses		
Employment costs	(533,732)	(497,877)
Occupancy	(11,509)	(106,001)
Direct costs of providing services	(65,971)	(59,906)
Depreciation	(97,656)	(16,177)
Other expenses	(38,174)	(29,711)
Finance costs	(73,620)	(28,973)
Total expenses	**(820,662)**	**(738,645)**
Profit before income tax	**85,744**	**103,216**
Income tax expense	(23,411)	(31,756)
Profit for the year	**62,333**	**71,460**
Effective portion of changes in fair value of cash flow hedges	(1,885)	1,626
Total comprehensive income for the year	**60,448**	**73,086**

4. GROUP STRUCTURE

Note 26: Deed of Cross Guarantee (continued)

(b) Balance Sheet

Set out below is a consolidated balance sheet as at 31 December 2019 of the closed group.

	2019 $'000	2018 $'000
Current assets		
Cash and cash equivalents	38,127	53,132
Trade and other receivables	29,025	35,758
Other current assets	30,600	33,404
Derivative financial instruments	-	10,837
Current tax asset	2,000	-
Total current assets	**99,752**	**133,131**
Non-current assets		
Investments in extended Group	-	139
Property, plant and equipment	103,307	91,173
Right of use assets	601,475	-
Deferred tax assets	53,966	17,856
Intangible assets	1,158,970	1,100,764
Other non-current assets	6,991	26,784
Total non-current assets	**1,924,709**	**1,236,716**
Total assets	**2,024,461**	**1,369,847**
Current liabilities		
Trade and other payables	53,686	67,386
Contract liabilities	6,200	7,490
Borrowings	-	279,566
Lease liabilities	66,654	-
Provisions	34,187	29,875
Total current liabilities	**160,727**	**384,317**
Non-current liabilities		
Other payables	696	5,260
Borrowings	387,750	92,188
Lease liabilities	637,398	-
Provisions	13,087	8,935
Total non-current liabilities	**1,038,931**	**106,383**
Total liabilities	**1,199,658**	**490,700**
Net assets	**824,803**	**879,147**
Equity		
Contributed equity	907,255	893,567
Reserves	54,083	48,826
Retained earnings	(136,535)	(63,246)
Total equity	**824,803**	**879,147**

5. UNRECOGNISED ITEMS

Note 27: 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.

5. UNRECOGNISED ITEMS

Note 28: Contingencies

(a) Contingent liabilities

The Group had no contingent liabilities as at 31 December 2019 (2018: Nil).

5. UNRECOGNISED ITEMS

Note 29: Events Occurring After the Balance Sheet Date

The following material matter has taken place subsequent to year end:

- The Board declared a 6.0c fully franked dividend at the Board meeting on 23 February 2020 which will be the final dividend for the year.

6. OTHER

Note 30: 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, AM
- D Foster
- J Cogin
- M Zabel

(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	
	2019 $'000	2018 $'000
Short term employee benefits	1,683	1,651
Post employment benefits	62	61
Share based payments*	(97)	-
	1,648	**1,712**

*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 38 to 55.

(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 31 for details of options issued to Key Management Personnel.

(ii) Option holdings

Refer to note 31 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 in the Remuneration Report. There were no shares issued during the reporting year as compensation.

6. OTHER

Note 31: 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	
	2019 $'000	2018 $'000
Share-based payment expense on shares issued	(131)	-

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 vest on achievement of the following performance and service conditions by the vesting date.

Performance Conditions – Earnings per Share (EPS) Compound Annual Growth Rate (CAGR)	**The percentage of Performance Rights that vest for each % EPS CAGR is based on the vesting schedule below:**	
	EPS CAGR	Percentage of Performance Rights that vest
	Less than 10%	0%
	10% to 15%	50% - 100% (pro-rata)
	> 15%	100%
Service Condition	Holders of Performance Rights must be continuously employed by the Company from the Grant Date to the Vesting Date.	
Retesting	Awards are not retested.	
Dividend Policy	Holders of Performance Rights are not entitled to receive dividends prior to vesting.	

6. OTHER

Note 31: Share–based Payments (continued)

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	152,386	-	-	-	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	-	-	(23,550)	415,059	415,059
30 January 2019	-	52,333	-	-	52,333	52,333
10 May 2019	-	452,631	-	-	452,631	452,631
Total	**694,983**	**504,964**	**-**	**(23,550)**	**1,176,397**	**1,176,397**

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	3.42	50,359	30 May 2020
20 July 2018	1 March 2021	2.39	415,059	30 May 2021
30 January 2019	1 March 2021	2.73	52,333	30 May 2021
10 May 2019	1 March 2022	2.42	452,631	30 May 2022
Total			**1,176,397**	

6. OTHER

Note 31: Share–based Payments (continued)

Valuation of instruments issued

Value of the financial benefit

In terms of performance rights issued to Key Management Personnel (KMP), the table below lists the inputs used in the model:

	Tranche 1 20-Jul-17	Tranche 2 6-Oct-17	Tranche 3 22-Jan-18	Tranche 4 20-Jul-18	Tranche 5 30-Jan-19	Tranche 6 10-May-19
Share price on grant date	$3.77	$3.83	$3.82	$2.87	$3.06	$2.83
Share price volatility	30%	30%	30%	30%	34%	34%
Risk free rate	2.31%	2.17%	2.04%	2.09%	1.82%	1.28%
Time to maturity	2.62 years	2.57 years	2.11 years	2.62 years	2.08 years	2.81 years
Annual dividend yield	6.37%	6.27%	5.45%	7.27%	5.56%	5.79%
Model used	Black Scholes	Black Scholes	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 Black Scholes 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 32: Remuneration of Auditors

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

	Consolidated	
	2019 $'000	2018 $'000
Ernst & Young		
Fees to the group auditor for auditing the statutory report	542	495
Fees for assurance services that are required by legislation	-	-
Fees for other assurance and agreed-upon-procedure services	-	-
Fees for other services	155	94
Total remuneration for services	**697**	**589**

6. OTHER

Note 33: 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 24.

(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 30.

During the year 2018 a Director, M Zabel was engaged by G8 Education as a marketing consultant for the 2018 calendar year with a fee based on normal commercial rates of $25,000 paid for the services provided. M Zabel was not engaged by G8 Education as a marketing consultant during the 2019 calendar year.

6. OTHER

Note 34: 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 2020. The Company has the power to amend and reissue the financial report.

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 2019 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.

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.

6. OTHER

Note 34: Other Significant Accounting Policies (continued)

(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 $62.6 million for the year ended 31 December 2019 and as at that date, current liabilities exceed current assets by $81.0 million, of which $68.5 million is the current portion of lease liabilities arising from the implementation of the AASB 16 *Leases* standard. Management expect the working capital shortfall will be met out of operating cash flows or from long term finance facilities.

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 entities are recognised in other comprehensive income as described in note 16 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 19. 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 $58.2 million (2018: $65.3 million) 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.

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

The Group adopted AASB 16 *Leases* using the modified retrospective method from 1 January 2019, and has not restated comparatives for the 2018 year, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

As at 31 December 2019 there are no standards that have been issued but are not yet effective which are expected to have a material impact on the Group's financial position, performance, presentation and/or disclosures.

Note 34: Other Significant Accounting Policies (continued)

Adjustments recognised on adoption of AASB 16 *Leases*

On adoption of AASB 16 *Leases*, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.18%.

	2019 $'000
Operating lease commitments as at 31 December 2018	**754,050**
Discounted using the incremental borrowing rate	540,753
Add:	
Payments in optional extension periods not included as at 31 December 2018	170,045
Lease liabilities recognised as at 1 January 2019	**710,798**

The associated right-of-use assets for leases were measured on a retrospective basis as if the AASB 16 *Leases* standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application.

In accordance with AASB 16(53)(j) the recognised right-of-use assets relate to the following types of assets:

	Consolidated	
	31 December 2019 $'000	1 January 2019 $'000
Leased property	604,729	611,810
Leased vehicles	1,490	1,947
Total right of use of assets	**606,219**	**613,757**

6. OTHER

Note 34: Other Significant Accounting Policies (continued)

The effect of adoption AASB 16 *Leases* as at 1 January 2019 (increase/(decrease)) is as follows:

	1 January 2019 $'000
Assets	
Right of use assets	613,757
Property, plant and equipment	(4,716)
Deferred tax assets	28,747
Trade and other receivables	(3,160)
Total assets	**634,628**
Liabilities	
Lease liabilities	710,798
Other payables	(5,844)
Total liabilities	**704,954**
Equity	
Retained earnings	(70,326)
Total adjustment on equity	**(70,326)**

(i) Impact on earnings per share

Earnings per share decreased by 1.81 cents for the year ended 31 December 2019 as a result of the adoption of AASB 16 *Leases*.

(ii) Practical expedients applied

In applying AASB 16 *Leases* for the first time, the Group has used the following practical expedients permitted by the standard:

- the previous assessment under AASB 117 *Leases* of whether a contract contains a lease
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases. The Group currently does not have any short-term leases.
- the accounting for operating leases as low value leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Note 34: Other Significant Accounting Policies (continued)

(b) The Group's leasing activities and how these are accounted for

The Group leases childcare centres, vehicles and equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Prior to 1 January 2019, leases of property and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement, within occupancy expenses.

From 1 January 2019, the Group applied a single recognition and measurement approach for all leases of which it is the lessee, except for low-value assets. The Group recognised lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of office equipment.

DIRECTORS' **DECLARATION**

In the Directors' opinion:

(a) the financial statements and notes set out on pages 60 to 122 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 2019 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 26.

Note 34(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

Gary Carroll

Director

23 February 2020

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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 2019, 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 2019 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 15 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; ▸ Tested the mathematical accuracy of the impairment model; ▸ Assessed future cash flow assumptions through comparison with current trading performance, externally derived data (where applicable), disposals in the period 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 relative to the recorded net asset amount at 31 December 2019; ▸ 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 15 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 2019, 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 14 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 14 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 $914.2 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 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.	Our audit evaluated revenue recognised in accordance with AASB15 *Revenue from contracts with customers*. 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; ▸ Tested a sample of daily revenue to source documentation;

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Refer to note 2 to the financial statements for disclosure relating to revenue.	▶ Assessed whether revenue is recognised in the appropriate financial period by testing the completeness of the deferred revenue balance through testing parent fees in advance bookings; ▶ 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.

AASB 16 *Leases* Transition

Why significant	How our audit addressed the key audit matter
The Group adopted the new Australian Accounting standard AASB 16 Leases in the current year. In doing so, the Group has elected to apply the modified retrospective approach. The new standard requires the Group to recognize its lease commitments as liabilities in the statement of financial position, along with an associated right of use asset. Effective on the date of transition, being 1 January 2019, a $710.8 million Lease Liability and $613.8 million Right of use Asset were recognized, with an after-tax adjustment of $70.3million impacting retained earnings. The key inputs used in derivation of the lease liability and right of use asset are: ▶ Lease term, including termination clauses and option periods; ▶ Incremental Borrowing Rate ('IBR'); ▶ Lease contractual terms including payments. This was considered to be a key audit matter due to the significant judgment and assumptions involved in the calculation of these right of use assets and associated lease liabilities on transition and the magnitude of the lease liabilities and right of use assets in the consolidated balance sheet relative to total liabilities and total assets.	Our audit procedures included the following: ▶ Assessed the Group's processes relating to the identification, recognition and measurement of lease liabilities and right of use assets; ▶ Tested management's controls on the integrity and completeness of the lease data in the Group's leasing system; ▶ Assessed key inputs and assumptions applicable to a sample of lease contracts; ▶ Assessed discount rates applied by the Group; ▶ Tested mathematical accuracy of a sample of lease calculations; and ▶ Evaluated adequacy of the Group's disclosures in relation to Leases including disclosure of associated judgements and estimates.

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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 2019 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.

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.

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 38 to 55 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of G8 Education Limited for the year ended 31 December 2019, 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 2020

SECTION **THREE**

SHAREHOLDER **INFORMATION**

The total issued capital of the Company as at 31 December 2019 and as at the date of this annual report is 460,176,931.

The Shareholder information set out below was applicable as at 3 February 2020.

(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**	**% Issued Capital**
100,001 and Over	328,394,496	107	71.36%
10,001 – 100,000	74,951,900	3,171	16.29%
5,001 - 10,000	27,632,561	3,649	6.00%
1,001 - 5,000	26,211,712	9,461	5.70%
1 - 1,000	2,986,262	6,256	0.65%
	460,176,931	**22,644**	**100.00%**

There were 2089 holders of less than a marketable parcel of ordinary shares.

(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	100,212,013	21.78
Citicorp Nominees Pty Limited	76,628,150	16.65
J P Morgan Nominees Australia Pty Limited	52,127,925	11.33
National Nominees Limited	27,476,479	5.97
BNP Paribas Noms Pty Ltd	16,889,406	3.67
BNP Paribas Nominees Pty Ltd (Agency Lending)	13,422,887	2.92
BNP Paribas Nominees Pty Ltd (IB AU Noms Retail)	4,216,050	0.92
RAP Investments Pty Limited	2,600,000	0.57
HSBC Custody Nominees (Australia) Limited	1,960,789	0.43
Netwealth Investments Limited	1,838,691	0.40
Mr Craig Graeme Chapman	1,400,000	0.30
Dreamline Development Corporation Pty Ltd	1,400,000	0.30
Mr Riccardo Pisaturo	1,400,000	0.30
BNP Paribas Nominees Pty Ltd (Hub24 Custodial Serv)	1,358,323	0.30
Viss Holdings Pty Ltd	1,170,683	0.25
Citicorp Nominees Pty Limited	1,132,741	0.25
Geosine Pty Ltd	1,000,000	0.22
HSBC Custody Nominees (Australia)	814,148	0.18
Gwynvill Trading Pty Ltd	750,000	0.16
Mr Louis Pierre Ledger	735,000	0.16
	308,533,285	**67.06**

(c) Substantial holders]

Substantial holders in the Company as at 3 February 2020 are set out below:

Ordinary Shares	Number held	Percentage
Sumitomo Mitsui Trust Holdings, Inc.	47,268,737	10.31%
Legg Mason Asset Management Limited	36,416,439	7.94%
Dimensional Entities	23,072,573	5.014%

(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.

CORPORATE **DIRECTORY**

Directors

M Johnson, Chairman

G Carroll, Managing Director

B Bailison, Non-Executive Director
Prof J Cogin, Non-Executive Director
S Forrester, AM, Non-Executive Director
D Foster, 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 4000

Lawyers:

Allens Linklaters Lawyers
Level 26, 480 Queen Street
Brisbane QLD 4000

Securities exchange listing:

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

G8 Education ltd