



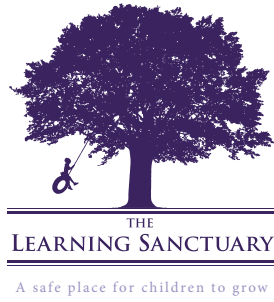
G8 Education<sup>ltd</sup>



Annual Report

2016

# Brands



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## Mission

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Our mission is to be Australia's leading provider of high quality, developmental and educational child care services. We seek to achieve this through our four pillars for growth and sustainability:

### Quality Education & Care

To nurture and develop childrens' minds, social skills and confidence in a safe and stimulating environment.

### Employees

To commit to employee development and a rewarding culture which will ensure an engaged and driven workforce.

### Community

To be responsive to local families and deliver upon community expectations.

### Profitability

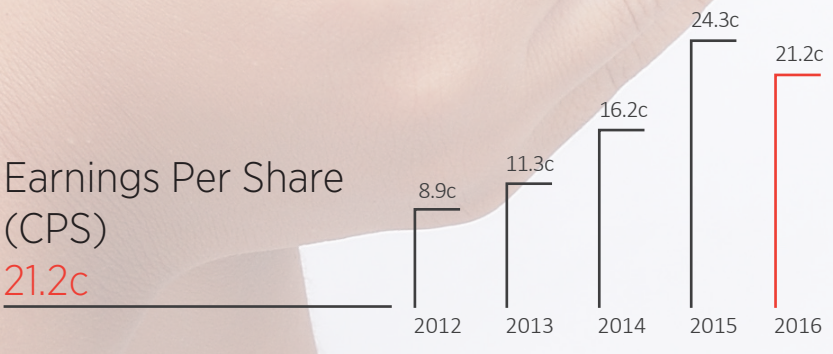
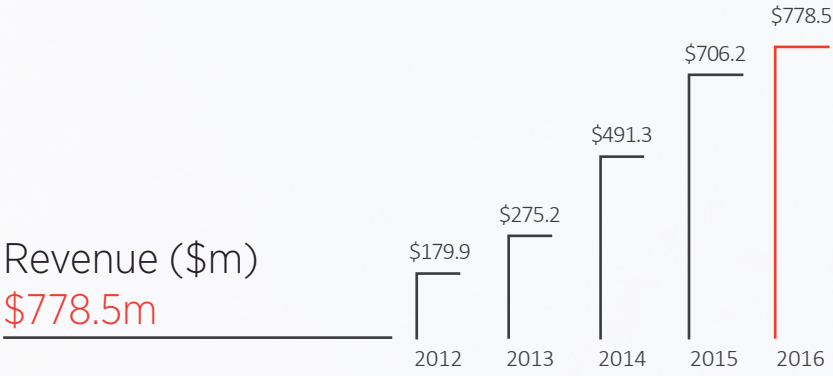
To grow and derive value for shareholders through innovative services, systems and management.

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## Chairman's Report

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Dear Shareholders,

On behalf of the Board, I am pleased to present the G8 Education Limited 2016 Annual Report.

During 2016, the Group has maintained a balance between growing our network and continuously improving the quality of our existing services.

In 2016 we acquired 19 early education centres in Australia and 2 in Singapore, bringing the total number of centres as at 31 December 2016 to 490 in Australia and 20 in Singapore. These centres provide a total combined licenced capacity of 38,713 places. As was the case in 2015, the centres were predominantly premium centres located in metropolitan areas, all of which were subjected to the Group's rigorous screening and due diligence disciplines prior to settlement.

Our ability to integrate acquired centres in a seamless, efficient manner has long been one of our core competencies and I am pleased to report that 2016 was a year of real achievement in this area.

In addition, continued investment in our Support Office systems and a focus on utilising technology has enabled us to enhance the experience that our families receive in our G8 centres. During the year we rolled out an application that provides parents with updates of their children's experience throughout each day, providing significantly enhanced information and connectivity for our families.

With over 75,000 children attending our services in any given week and over 10,000 employees educating and caring for those children our responsibilities to the families and communities from which they come is paramount. Our vision – Partnering with you to inspire the next generation – reinforces this point.

Our focus on ensuring that our centre based teams are appropriately resourced, trained and supported is essential to us maintaining our position as Australia's leading for profit early education provider.

In that regard I am pleased to report that capital investment in our centres was at record levels this year, increasing by 19% from the prior year. We have also continued to invest significantly in our professional and leadership development programs across both centre and support office teams.

From a financial perspective, the Group continued to generate good level of growth for shareholders. Revenues increased 10% to \$778 million, underlying earnings before interest and tax rose 10% to \$161 million and underlying net profit after tax increased by 7% to \$93 million. The Group generated \$109 million of cash from operations and returned \$91 million in dividends to shareholders.

In December 2016 the Group announced a change in executive leadership, with our CFO, Gary Carroll, being appointed as CEO and Managing Director from 1 January 2017. Chris Scott, our Managing Director from 2010, transferred to an Executive Director role and will be assisting Gary in his transition to the new role. I would like to take the opportunity to thank Chris for the outstanding contribution that he has made to G8 over the last 6+ years. His vision, energy, leadership and commercial acumen have driven the Group to be the leading player in the sector and have laid an outstanding platform for the future.

As we look forward to 2017 we feel strongly that we are positioned well to take advantage of any opportunities that may arise whilst maintaining our high levels of service provision to Australia's communities.

2017 is likely to be another exciting year for the Group.

On behalf of the Board, I would like to take this opportunity to thank all of our shareholders, employees and customers for their ongoing support in 2017.

Yours sincerely,



**Mark Johnson**  
Chairman

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### Directors' Report

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## Managing Director's Report

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Dear Shareholders,

2016 was a year in which G8 Education solidified its position as the leading for profit child care and early education provider in Australia, and built the foundations for the sustainable growth of the Group.

With our position as the trusted provider of care and education for more than 75,000 children each week, it is vital that we continue to evolve our services and engagement with families to ensure we are meeting the needs of children and parents. 2016 saw the roll-out of the Net Promoter Score ("NPS") process to enable us to clearly measure customer engagement levels and capture valuable ideas on how to improve our relationships with families. Opportunities to improve our operational processes to make it easier for families to interact with centres were identified as part of NPS, with a number being implemented during 2016 with good results. We look forward to continuing the journey to being a truly customer-centric organisation in 2017 and beyond.

The key to our success as an organisation is the quality, skill and commitment of our team members. 2016 saw the roll-out of our core values – Passion, Integrity, Compassion, Innovation and Dedication. Embedding these core values in all our centres and support office will enable the formation of a single culture, combining the strengths of the brands we have purchased over the last 6+ years into a single, unified organisation.

As well as building on our cultural foundation, 2016 was a year in which the Group increased its investment in training its team, from both a professional and leadership perspective. We are confident that building the professional skill of our teams will improve the quality of services offered to our families every day, while the development of a deep pool of quality leadership talent will assist in maintaining and building our existing leading position in the market.

From an operational perspective, the Group acquired a further 21 early education centres in 2016. Our acquisition strategy continues to focus on opportunities in and around metropolitan areas where supply and demand dynamics combined with attractive pricing create the right conditions for earnings accretive acquisitions.

It is pleasing to report that the acquisitions completed in 2016 are performing in line with expectations. By year end 2016, the Group's total portfolio comprised 510 centres with capacity of 38,713 licensed places.

2016 continued to deliver good financial results for the Group, albeit not without challenges. The implementation of the last phase of National Quality Framework changes to staff to children ratios occurred at the start of 2016, adversely impacting on results for the first half of the year. The Group managed to implement a number of operational process improvements during the year to improve second half performance. The end result was that underlying net profit after tax rose 7% to \$93 million, off the back of a 10% rise in revenues to \$778 million. The Group's ability to convert earnings before interest, tax, depreciation and amortisation ("EBITDA") to cash remained strong with 97% cash conversion in 2016, generating operating cash flows of \$109 million.

During 2016, the Group also improved its capital structure by increasing the tenor of its borrowings via a \$270 million bond issue that was completed in May 2016. The foreign currency exposure relating to the bonds has been fully hedged, mitigating any impact on the Group's reported results.

### Outlook for 2017

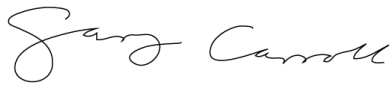
We continue to believe there are significant organic and acquisition growth opportunities for the Group. Our growth strategy contains the following key elements:

- Driving occupancy in existing centres through development of a differentiated offer focused on the customer experience and providing value for families. To facilitate this, the Group will be implementing a new Customer Relationship Management ("CRM") platform to enhance all our communications with existing and new families;
- Continuing to grow our network of child care centres through acquisition and greenfield development, working with our established providers who continue to produce quality assets at reasonable prices;
- Developing new revenue streams for existing and new centres that deliver enhanced value to our families and better utilise our existing assets; and
- Engaging and developing our team through a series of initiatives such as enhanced leadership training and re-engineering our incentive framework.

To support our strategy, in February 2017 the Group announced raising approximately \$212 million from a share placement to a subsidiary of China First Capital Group, a Hong Kong-listed investment company. The funding raised from the issue will enable the Group to repay a portion of its A\$ bond and bank debt facilities as well as assisting in funding the acquisition of additional child care centres.

With this funding in place, and a clear strategy that is supported by a passionate and capable team, we believe we are well placed to deliver sustainable value to children, families and our shareholders in the years ahead.

Yours sincerely,

A handwritten signature in black ink that reads "Gary Carroll". The signature is written in a cursive, flowing style.

**Gary Carroll**  
**CEO and Managing Director**

## Key Operational Information

	Consolidated Group
Number of owned centres at year end	510
Licence capacity of owned centres at year end	38,713
Total Number of employees at year end	10,052
Total number of full time equivalent employees at year end	7,258

## Underlying Net Profit After Tax Reconciliation (Unaudited, Non IFRS)

Consolidated Year end 31 December	2016 \$'000	2015 \$'000	Variance
Revenue <sup>#</sup>	777,470	704,548	10%
Expenses	(616,779)	(543,124)	14%
Net Financing Cost	(46,022)	(37,651)	22%
<b>Net Profit Before Tax</b>	<b>114,669</b>	<b>123,772</b>	<b>-7%</b>
<b>Net Profit After Tax</b>	<b>80,265</b>	<b>88,581</b>	<b>-9%</b>
Add/(Less) non-operating transactions:			
Deferred consideration not paid*	(2,500)	(5,755)	
Acquisition expenses	2,574	916	
Share based payment expense *	(105)	344	
Write off of borrowing costs on refinancing* <sup>^</sup>	7,474	2,010	
Profit on sale of financial assets <sup>^</sup>	-	(7,343)	
Foreign currency translation loss* <sup>^</sup>	5,634	8,378	
<b>Underlying Net Profit After Tax</b>	<b>93,342</b>	<b>87,131</b>	<b>7%</b>
<b>Underlying EPS (cents per share)<sup>^^</sup></b>	<b>24.68</b>	<b>23.87</b>	<b>3%</b>
<b>Earnings Before Interest and Tax</b>	<b>160,691</b>	<b>161,423</b>	
Add/(Less) non-operating transactions:			
Deferred consideration not paid	(2,500)	(5,755)	
Acquisition expenses	2,574	916	
Share based payment expense	(105)	344	
Profit on sale of financial assets	-	(10,490)	
<b>Underlying Earnings Before Interest and Tax<sup>^^^</sup></b>	<b>160,660</b>	<b>146,438</b>	<b>10%</b>

<sup>#</sup>Adjustment for interest income of \$1.0m excluded from revenue and included in financing costs (2015 \$2.6m).

\*Non-Cash adjustments.

<sup>^</sup>Tax adjusted

<sup>^^</sup>Underlying EPS equals Underlying NPAT divided by weighted average number of shares

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

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## Directors' Report

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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 2016.

All of the following persons were Directors of G8 Education Limited during the financial year and up to the date of this report unless otherwise stated

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<b>Mark Johnson</b>  B. Comm, FCA, CPA, FAICD  Chairman Independent Non-Executive Director since 1 January 2016	<p>Mark Johnson is an experienced chairman and company director with a diverse portfolio, including Chairman of MH Premium Farms Holdings Pty Ltd, Director of Westfield Corporation, Director of HSBC Bank Australia Limited, Director of Coca-Cola Amatil Limited, Director of The Hospitals Contribution Fund of Australia Limited (HCF) and Councillor – St Aloysius' College.</p> <p>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. Mr Johnson is a Fellow of the Institute of Chartered Accountants and the Australian Institute of Company Directors, and holds a Bachelor of Commerce from the University of NSW.</p> <p><i>Special responsibilities:</i> Chair of the Nomination Committee, Member of the Audit and Risk Management Committee and People and Culture Committee</p> <p><i>Other current listed public Company Directorships:</i> Westfield Corporation Limited (appointed 30 June 2014) and Westfield Holdings Limited (appointed 29 May 2013 until 30 June 2014). Coca-Cola Amatil Limited (appointed 06 December 2016)</p> <p><i>Former listed public Company Directorships in the last three years:</i> Nil</p>
<b>Gary Carroll</b>  B.Comm (Hons), B.Law (Hons), CPA  Managing Director/CEO since 1 January 2017	<p>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, 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. Mr Carroll holds Bachelor of Commerce (Hons) and Bachelor of Law (Honours) degrees from the University of Queensland, and is a Fellow of CPA Australia.</p> <p><i>Special responsibilities:</i> Member Nomination Committee</p> <p><i>Other current listed public Company Directorships:</i> Nil</p> <p><i>Former listed public Company Directorships in the last three years:</i> Nil</p>
<b>Christopher Scott</b>  B.Econ (Hons)  Managing Director from 25 March 2010 to 31 December 2016 Executive Director since 1 January 2017	<p>Chris Scott has over 25 years experience in senior management positions. He has spent over 30 years in business in Singapore where he was involved in a number of successful businesses. Chris was also the founder and Managing Director of ASX listed S8 which was an integrated travel Company that acquired 36 businesses over a 5 year period and was capitalised at \$700 million. His operational, analytical and strategic skills are critical in the selection of potential acquisitions and operational management.</p> <p><i>Special responsibilities:</i> Member Nomination Committee</p> <p><i>Other current listed public Company Directorships:</i> Nil</p> <p><i>Former listed public Company Directorships in the last three years:</i> Nil</p>

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<p><b>Brian Bailison</b></p> <p>B.Com., B.Acc (Cum Laude), ACA</p> <p>Independent Non-Executive Director Audit Committee Chair since 25 March 2010</p>	<p>Brian Bailison has over 20 years experience in finance, corporate finance and operations from senior roles in listed and unlisted businesses in South Africa and Australia, including senior positions at Rand-Merchant Bank Limited (South Africa’s largest bank-assurance business), the Ivany Investment Group (diversified investment Group) and Payce Consolidated Limited which operated 59 child care centres prior to them being acquired by the Company.</p> <p><i>Special responsibilities:</i> Chair Audit and Risk Management Committee and Member of the Nomination Committee</p> <p><i>Other current listed public Company Directorships:</i> Nil</p> <p><i>Former listed public Company Directorships in the last three years:</i> Nil</p>
<p><b>Matthew Reynolds</b></p> <p>B.Sc (Hons), LLB (Hons), MQLS</p> <p>Independent Non-Executive Director since 17 March 2015</p>	<p>Matthew is leading a partner in HWL Ebsworth Lawyers national corporate team. He specialises in debt and equity capital markets, mergers and acquisitions and private equity spanning over 20 years. Matthew provides tailored structuring and strategic legal advice to businesses in Australia and throughout Asia particularly the People’s Republic of China. Matthew has been recognised as a leading lawyer in M&amp;A by Chambers &amp; Partners, Legal 500 and by the Australian Financial Review as one of Australia’s best lawyers in the fields of debt capital markets and leveraged buyouts..</p> <p><i>Special responsibilities:</i> Member of the Nomination Committee and People and Culture Committee</p> <p><i>Other current listed public Company Directorships:</i> Bubs Australia Limited (appointed 20 December 2016) and Axesstoday Limited (appointment date 21 December 2016)</p> <p><i>Former listed public Company Directorships in the last three years:</i> Nil</p>
<p><b>Susan Forrester</b></p> <p>BA, LLB (Hons) EMBA, FAICD</p> <p>Independent Non-Executive Director since 1 November 2011</p>	<p>Susan Forrester is an experienced Chair and Company Director with a diverse portfolio career. She has a valuable blend of commercial, legal and executive management experience gained across public and private organisations. She is currently chair for National Veterinary Care Ltd and Oncore Group Holdings Pty Ltd and is a non-executive director of Over the Wire Group Ltd, Xenith IP Ltd and Uniting Care Qld. She serves as Independent Chair of the Audit Committee of Transport and Main Roads Qld.</p> <p><i>Special responsibilities:</i> Chair of the People and Culture Committee and Member of the Nomination Committee</p> <p><i>Other current listed public Company Directorships:</i> Over the Wire Ltd (appointed 1 November 2015), Xenith IP Ltd (appointed 1 October 2015) and National Veterinary Care Ltd (appointed 1 February 2015)</p> <p><i>Former listed public Company Directorships in the last three years:</i> Nil</p>
<p><b>David Foster</b></p> <p>B.App.Sci, MBA, GAICD, SFFin</p> <p>Independent Non-Executive Director since 1 February 2016</p>	<p>David Foster enjoyed a successful career in financial services spanning over 25 years. His last executive role was as Chief Executive Officer of Suncorp Bank, Australia’s 5th largest bank. Since leaving Suncorp, Mr Foster has further developed his career as an experienced Non-Executive Director with a portfolio of Board roles across a diverse range of industries including financial services, retailing, local government, education and professional services. He currently serves as Chairman of Motor Cycle Holdings Limited and Director of Genworth Mortgage Insurance Australia Limited and is a Director on the Boards of the Thorn Group Limited and Kina Securities Limited and chairs both their Audit and Risk Committees.</p> <p><i>Special responsibilities:</i> Member of Audit and Risk Management Committee and Nomination Committee</p> <p><i>Other current listed public Company Directorships:</i> Motor Cycle Holdings Limited (appointed 08 March 2015), Thorn Group Limited (appointed 1 December 2014), Kina Securities Limited (appointed 1 May 2015) and Genworth Mortgage Insurance Australia Limited (appointed 30 May 2016)</p> <p><i>Former listed public Company Directorships in the last three years:</i> Nil</p>

## Chief Executive Officer

Gary Carroll was appointed as Managing Director and Chief Executive Officer on 1 January 2017. He is responsible for managing the external and internal operations of the Group and providing consistent high level advice to the Board on operations, policy and planning

Gary has over 15 years' experience in senior leadership roles covering a number of industries.

Jason Roberts was Chief Executive Officer at 31 December 2016. He has been appointed as General Manager Business Developments from 1 January 2017.

## Company Secretary

Sarah Zeljko was appointed as Company Secretary and General Counsel on 16 January 2017. She is responsible for the Legal, Compliance, Safety, Facilities Management, Risk Management, Insurance and Company Secretarial functions for the Group.

Gary Carroll was Company Secretary at 31 December 2016.

Maria Forgione was Company Secretary from 19 April 2016 to 18 October 2016.

Chris Sacre resigned as Company Secretary on 27 May 2016.

## 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 2016.

## 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 an additional 19 child care centres in Australia and 2 in Singapore.
- In May 2016 the Group repaid the Series 001 S\$260m unsecured notes by raising S\$270m pursuant to its third issue of Series 003 unsecured notes under its

S\$600m Multicurrency Debt Issuance Programme established on 2 May 2014.

## Matters subsequent to the end of the financial year

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

- Gary Carroll was appointed Managing Director and Chief Executive Officer on 1 January 2017.
- Sarah Zeljko was appointed Company Secretary on 16 January 2017.
- Sharyn Williams was appointed Chief Financial Officer on 6 February 2017.
- To support our strategy, in February 2017 the Group announced raising approximately \$212 million from a share placement to a subsidiary of China First Capital Group, a Hong Kong-listed investment company
- In accordance with the terms of the executive share plan a third of the shares issued will be cancelled by the Group as the underlying EPS growth did not exceed 15% as required by the terms of the plan. Accordingly this will decrease the number of shares in the executive share plan. The Group plans to discontinue the Executive Share Plan, which was in place for the full year in 2016 and will implement the new LTI scheme subject to shareholder approval.

## 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:

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

	2016 \$'000	2015 \$'000
Dividend for the quarter ended 31 March 2016 of 6.0 cents per share (2015: 6.0 cents per share) paid on 8 April 2016 (2015: Paid on 10 April 2015)	22,481	21,549
Dividend for the quarter ended 30 June 2016 of 6.0 cents per share (2015: 6.0 cents per share) paid on 8 July 2016 (2015: Paid on 7 July 2015)	22,616	21,903
Dividend for the quarter ended 30 September 2016 of 6.0 cents per share (2015: 6.0 cents per share) paid on 7 October 2016 (2015: Paid on 7 October 2015)	22,772	22,070
Dividend for the quarter ended 31 December 2016 of 6.0 cents per share (2015: 6.0 cents per share) paid on 6 January 2017 (2015: Paid 11 January 2016)	22,950	22,369

### 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 2016, 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	11	11	4	4	2	2	2	2
C Scott	11	11	-	-	2	2	-	-
M Reynolds	11	11	-	-	2	2	2	2
B Bailison	11	11	4	4	2	2	-	-
S Forrester	10	11	-	-	2	2	2	2
D Foster	10	11	4	4	2	2	-	-

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 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 are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the Officers in their capacity as Officers of entities in the Group and any other payments arising from liabilities incurred by the Officers in connection with such proceedings.

This does not include such liabilities that arise from conduct involving willful breach of duty of the Officers or the

improper use by the Officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group.

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

### **Indemnification of auditors**

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



# Remuneration Report Audited

## Contents

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Section	Title	Description
1	Introduction	Describes the scope of the Remuneration Report and the individuals whose remuneration details are disclosed together with a summary of the key changes during the year.
2	Remuneration governance	Describes the role of the Board and the People and Culture Committee, and the use of remuneration consultants when making remuneration decisions.
3	Non-executive director remuneration	Provides details regarding the fees paid to non-executive directors.
4	Executive remuneration	Outlines the principles and strategy applied to executive remuneration decisions and the framework used to deliver rewards including the performance and remuneration linkages.
5	KMP equity interests	Provides details regarding shareholdings in G8 Education Limited of KMP.
6	Employment agreements	Provides details regarding the contractual arrangements between the G8 Education and the executives whose remuneration details are disclosed.

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## 1. Introduction

G8 Education Limited (G8 Education) has a firm belief that attracting, developing, engaging and retaining passionate, capable team members will provide the Group with a sustainable advantage over the long term. Building and maintaining a culture and implementing people systems to support such a belief and culture are strategic priorities for the Group.

The relevant people systems are attraction, learning and development, engagement, workplace health and safety, talent and succession management, and remuneration and benefits. The Board's philosophy and approach to executive remuneration have always been to balance fair remuneration for skills and expertise with a risk and reward framework that supports longer-term growth and sustainability of G8 Education as a geographically diverse business.

At the end of 2015 the Board appointed PwC to assist in benchmarking Board and Senior Executive Remuneration. The review highlighted the need to implement changes across two areas. Firstly to lift base remuneration where necessary with immediate effect through 2016 and secondly to redesign and implement new STI and LTI programs. In the case of the base remuneration the intent was agreed to pay at market median with upside all being delivered through the STI and LTI programs linked to closely to challenging performance goals. This leaves the following key initiatives to be implemented during 2017:

- Introduction of a Short-term Incentive ("STI") scheme for the CEO and other executive KMP that provides cash rewards and equity rewards subject to deferral for the achievement of performance targets that are consistent with the Group's approved business plan and that are aligned to delivering sustainable value to shareholders.
- Underpinning the STI scheme is the introduction of a new Key Performance Indicator ("KPI") framework. The CEO and other executive KMP have KPI targets that cover achievement of financial and operational performance metrics and strategic plan implementation milestones across four areas: Team, Safety, Performance and Customer. The level of reward available under the STI scheme is dependent on the achievement of KPI targets.
- Replacement of the Executive Share Plan that was approved by shareholders on 21 May 2015 with a Long-Term Incentive ("LTI") scheme, subject to approval by shareholders in May 2017. The Company's view is that the proposed new LTI scheme, which is detailed in section 4 below, will provide a stronger linkage between long-term performance and KMP remuneration than the previous Executive Share Plan.

The STI scheme and supporting KPI framework were finalised in February 2017, and are applicable for the years commencing 1 January 2017. For the 2016 financial year, the Board has exercised discretion in determining the short-term incentive payments for executive KMP based individual performance. Performance assessment related to financial and operating areas relevant to each executive KMP.

The changes to be adopted in 2017 are under constant review. Any further material Board or executive KMP remuneration strategy changes will be advised.

The Board believes, G8 Education's approach to Board and executive KMP remuneration is a balanced, fair and equitable approach designed to reward and motivate a successful and experienced executive team to deliver ongoing business growth which is designed meets the expectations of all shareholders.

The Board will continue to welcome feedback from shareholders on our remuneration practices or on the communication of remuneration matters in the 2016 Remuneration Report and beyond.

### 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 key management personnel (KMP) during 2016.

## Key management personnel

KMP have authority and responsibility for planning, directing and controlling the activities of G8 Education and comprise the non-executive directors, and executive KMP (being the executive directors and other senior executives named in this report). Details of the KMP as at year end are set out in the table below:

	<b>Title (at year end)/Committees</b>	<b>Change in 2016</b>
<b>Non-executive directors</b>		
Mark Johnson	Chairman	No Change. Full Year
	Member, Audit & Risk Management	
	Chairman, Nomination	
	Member, People & Culture	
Brian Bailison	Director	No Change. Full Year
	Chairman, Audit & Risk Management	
	Member, Nomination	
Susan Forrester	Director	No Change. Full Year
	Member, Nomination	
	Chairman, People & Culture	
Matthew Reynolds	Director	No Change. Full Year
	Member, Nomination	
	Member, People & Culture	
David Foster	Director	Commenced with Group as Non-Executive Director on 1 February 2016
	Member, Nomination	
	Member, Audit & Risk Management	
<b>Executive directors</b>		
Christopher Scott	Managing Director	No change. Full year. Resigned as Managing Director on 1 January 2017, continues as Executive Director
	Member, Nomination	
Gary Carroll	CEO and Managing Director	Appointed 1 January 2017
	Member, Nomination	
<b>Other executive KMP</b>		
Jason Roberts	Chief Executive Officer	No change. Full year. Ceased CEO on 1 January 2017. Appointed GM – Development on 1 January 2017
Gary Carroll	Chief Financial Officer	Commenced with Group and as KMP on 25 July 2016, appointed CEO and MD on 1 January 2017
Ann Perriam	Executive officer	Ceased as KMP on 1 January 2017. Appointed Commercial Manager Developments on 1 January 2017
Christopher Sacre	Chief Financial Officer	Resigned effective 27 May 2016 and ceased as KMP on this date

## 2. Remuneration governance

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.

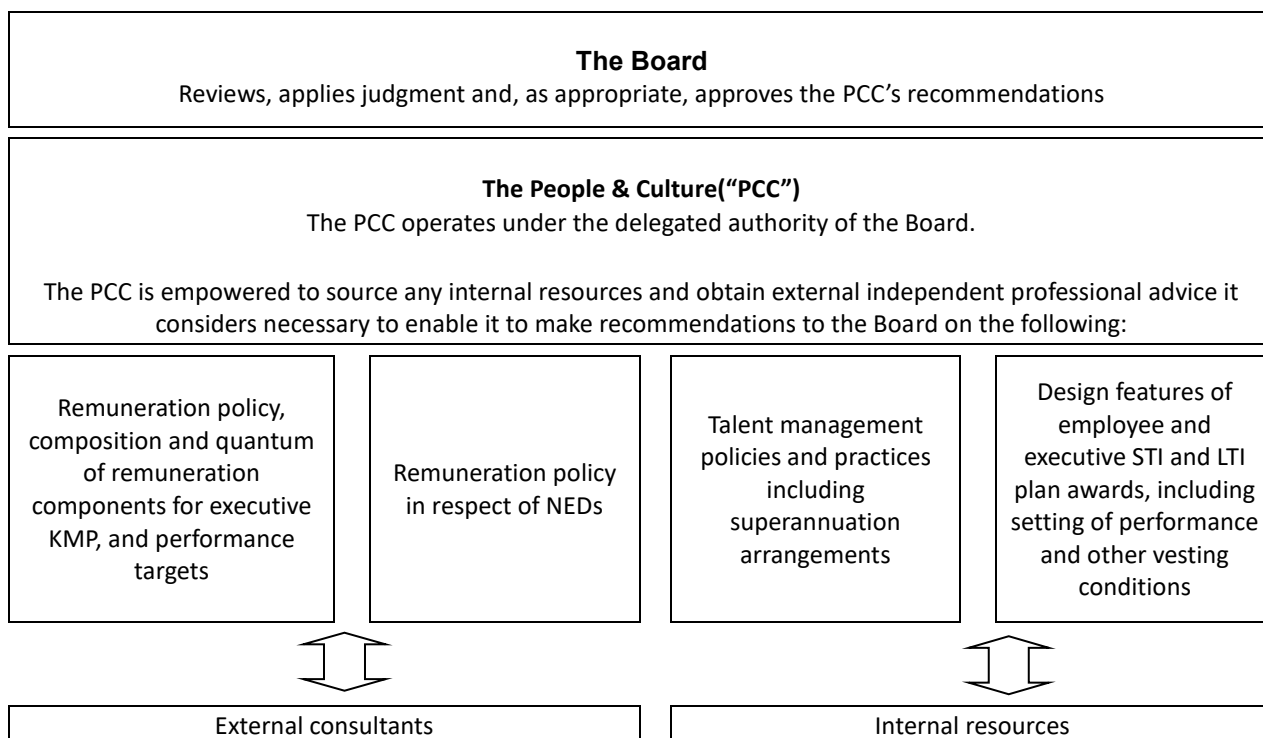
### Role of the Board and the People and Culture Committee

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

The role of the PCC is set out in its Charter, which is reviewed annually and was last revised and approved by the Board in December 2016. 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; and retention and termination policies and procedures for senior management; and develop, maintain and monitor appropriate superannuation arrangements for G8 Education.

The PCC’s role and interaction with Board, 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 of this Annual Report. The PCC terms of reference can also be viewed in the Investor Centre, 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.

During the 2016 financial year, G8 Education used the following remuneration consultants:

1. PwC, who were appointed by the PCC in December 2015 to undertake a comprehensive review of the Group's executive remuneration framework with a view to establishing a competitive remuneration framework that encourages sustainable business performance and alignment between KMP remuneration and shareholder returns.
2. Crichton & Associates Pty Limited, who were appointed by the PCC in October 2016 to assist in documenting the proposed STI and LTI schemes that flowed from the PwC review, including benchmarking the schemes against comparable companies and reviewing remuneration report disclosures.

The remuneration advice was general in nature and not considered to be remuneration advice in accordance with the Corporations Act.

## 3. 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.
Remuneration is structured to preserve independence whilst creating alignment	To preserve independence and impartiality, NEDs are not entitled to any form of incentive payments including options and the level of their fees is not set with reference to any measure of G8 Education performance.  However, to create alignment between directors and shareholders, the Board has adopted guidelines that request NEDs to hold (or have a benefit in) shares in G8 Education equivalent in value to at least one year's base fees. G8 Education does not offer loans to NEDs to fund share ownership.
Aggregate Board and committee fees are approved by shareholders	The total amount of fees paid to NEDs in 2016 is within the aggregate amount approved by shareholders at the AGM in 25 May 2015 of \$850,000 per annum including superannuation.

## NED fees and other benefits explained

Elements	Details	2016	2015
Board fee per annum	Board Chairman Fee	225,000	225,000
	Board NED Base fee	110,000	95,000
Committee fees 2016	<b>Committee Fees</b>		
		<b>Committee Chair</b>	<b>Committee member</b>
	Audit	25,000	10,000
	Nomination	No Fee	No Fee
	People and Culture	17,000	9,000
<b>Post-employment benefits</b>			
Superannuation	Superannuation contributions have been made at a rate of 9.5% of the board fee (but only up to the Australian Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions. The contribution rate will increase in future years in line with mandated legislative increases. Contributions are not included in the base fee.		
Retirement schemes	There are no retirement schemes in place for NED other than Statutory Superannuation.		
<b>Other benefits</b>			
Equity instruments	NEDs do not receive any performance related remuneration, options, performance rights or shares.		
Other fees/benefits	NEDs receive reimbursement for costs directly related to G8 Education business. No payments were made to NEDs during 2016 for travel allowances, extra services or special exertions.		

## NED total remuneration paid

	Year	Short-term benefits	Post-employment benefits		Total
		Fees	Termination benefits	Superannuation benefits	
M Johnson	2016	225,865	-	21,457	247,322
	2015	-	-	-	-
B Bailison	2016	121,923	-	11,583	133,506
	2015	83,769	-	7,958	91,727
M Reynolds	2016	111,153	-	10,560	121,713
	2015	72,346	-	6,873	79,219
S Forrester	2016	116,539	-	11,071	127,610
	2015	85,308	-	8,104	93,412
D Foster	2016	104,519	-	9,929	114,448
	2015	-	-	-	-
J Hutson (resigned 15 October 2015)	2016	-	-	-	-
	2015	138,876	-	13,027	151,903
A Kemp (resigned 17 March 2015)	2016	-	-	-	-
	2015	59,361	-	5,639	65,000
<b>Total</b>	<b>2016</b>	<b>679,999</b>	<b>-</b>	<b>64,600</b>	<b>744,599</b>
<b>Total</b>	<b>2015</b>	<b>439,660</b>	<b>-</b>	<b>41,601</b>	<b>481,261</b>

### Minimum shareholding guidelines

The Board has approved minimum shareholding guidelines for NEDs, the CEO and those executives who report directly to the CEO. Under these guidelines, all NEDs are requested to accumulate a minimum shareholding in G8 Education shares equivalent in value to one year's base fees and all executive KMP are requested to accumulate a minimum shareholding in G8 Education shares equivalent to one year's fixed remuneration.

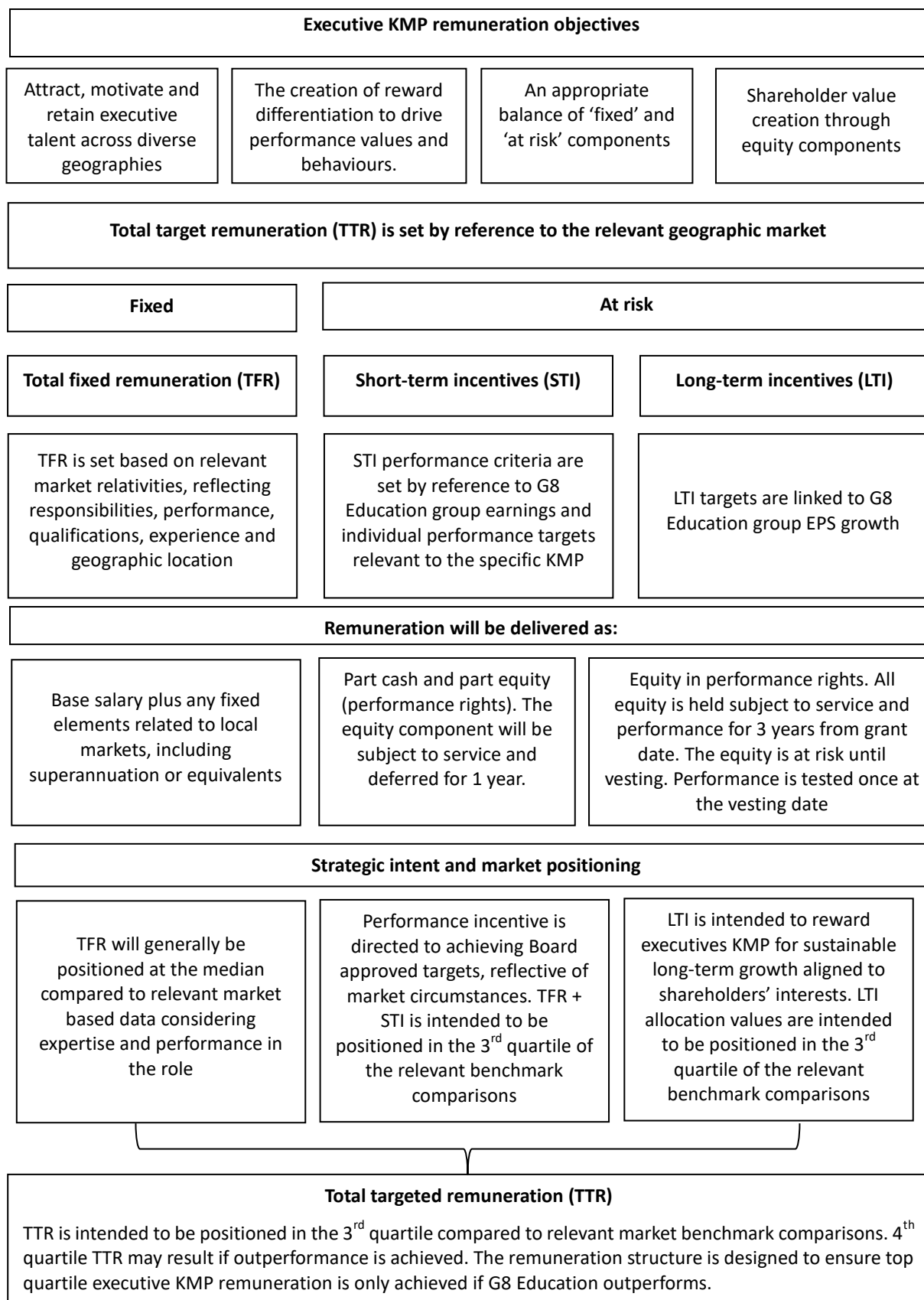
The guidelines were implemented in January 2017, with NEDs and executive KMP required to accumulate the required holding over the next 5 years or from appointment.

## 4. Executive remuneration

### Executive KMP remuneration

The Group has undertaken a comprehensive review of executive KMP remuneration policies during 2016, for implementation from 2017 onwards. 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:





## Remuneration composition mix and timing of receipt

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. The broad remuneration composition mix for executive KMP can be illustrated as follows:

### Remuneration mix 2016

The remuneration mix for the Managing Director and other executive KMP in 2016 consisted of TFR, dividends paid under the Executive Share Plan and a cash bonus. This resulted in the following remuneration mix:

Position	TFR	Dividend payments on escrow shares	STI
CEO	66%	21% of TTR	13% of TTR
Executive KMP	At least 83%	Up to 7% of TTR	Up to 10% of TTR

The 2016 STI entitlement was based on achievement of Group financial targets (80% of STI) and individual KPIs (20% of STI). The Group's financial targets were not achieved, however the Board exercised discretion relating to individual performance being achieved. Accordingly, 20% of the STI opportunity was achieved in 2016.

### Remuneration mix F17 proposed

The mix of remuneration for the CEO and executive KMP for 2017 will change significantly. The proposed 'new' remuneration mix effective from 1 January 2017, will be as follows:

Position	TFR	STI	LTI
CEO	40%	30% of TTR	30% of TTR
Executive KMP	At least 50 %	Up to 25% of TTR	Up to 25% of TTR

### Total fixed remuneration (TFR)

G8 Education's approach to TFR settings has been reevaluated. It is now the aim of G8 Education to position all executives at between the median and 62.5<sup>th</sup> percentile of the market, but at the lower end of this range where possible to control fixed costs. This positioning has been determined by our recent independent remuneration benchmark assessments conducted by PwC.

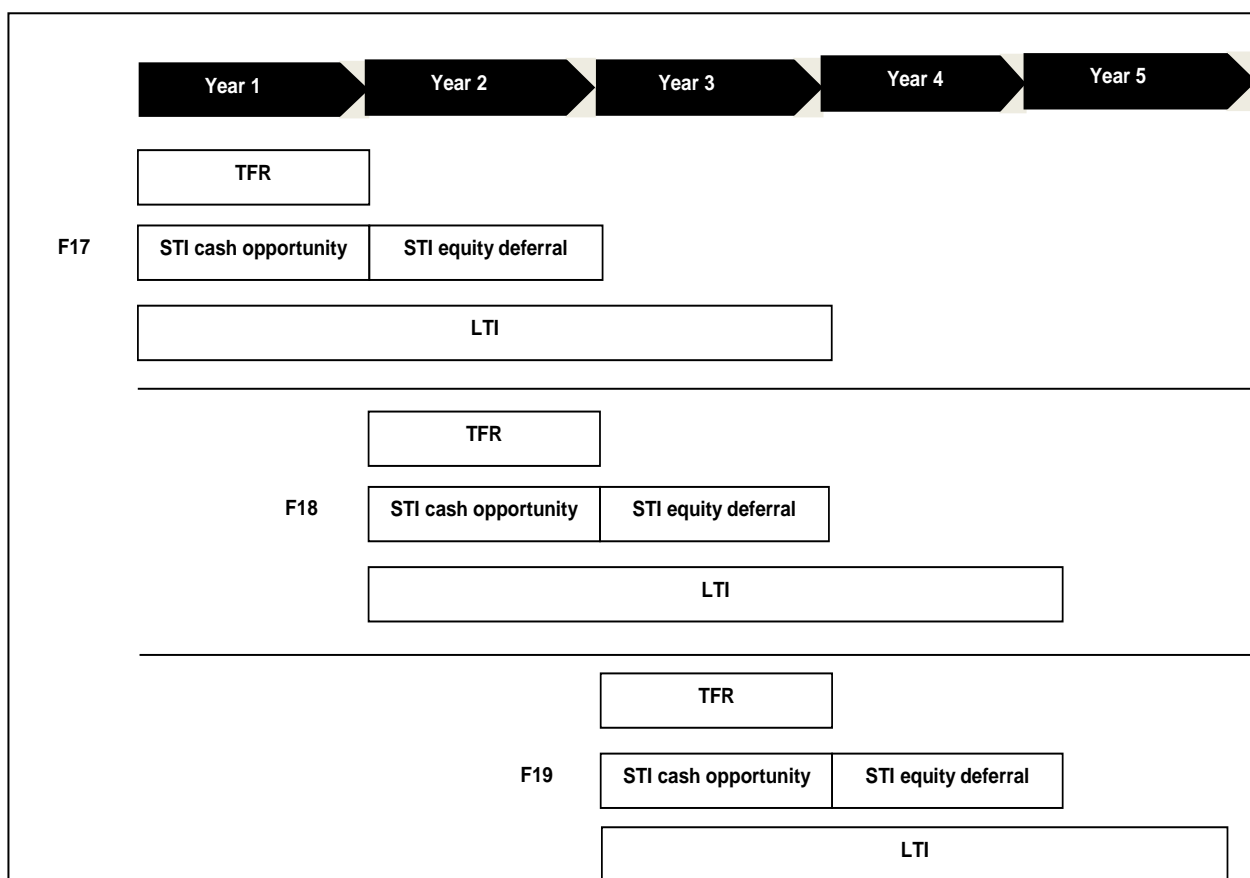
A description of the 2017 short-term and long-term incentive schemes, including changes when compared to the 2016 schemes, are set out below.

### Total target remuneration

TTR under the remuneration mix adopted will, in the opinion of the Board, deliver an overall risk adjusted reward opportunity which is fair and market competitive.

## Remuneration – timing of receipt of the benefit for 2017 onwards

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



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.

### 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 direct executives’ behaviours towards maximising G8 Education’s short, medium and long-term performance.

The key aspects are summarised below:

## Short-term incentives (STI)

Purpose	<p>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.</p> <p>Any STI award in excess of the 100% budget opportunity is individually approved by the PCC. All STI awards to the CEO and other executive KMP are approved by the PCC and Board.</p>										
Performance targets	<p>The key performance objectives of G8 Education are currently directed to achieving Board approved earnings targets, and by the achievement of individual performance KPIs. There are ten individual KPIs that are split into four areas – Team (2), Safety (2), Performance (4) and Customer (2). These KPIs are yet to be finalised for 2017</p> <p>The targets for the 2017 include achievement of individual KPIs and Group financial performance as follows:</p> <table border="1"> <thead> <tr> <th colspan="2">Underlying net profit after tax growth</th> </tr> <tr> <th>Performance</th> <th>% of performance-related STI</th> </tr> </thead> <tbody> <tr> <td>&lt; 8%</td> <td>0%</td> </tr> <tr> <td>8% to 10%</td> <td>50% to 100% pro-rata</td> </tr> <tr> <td>&gt; 10%</td> <td>100%</td> </tr> </tbody> </table> <p>Achievement of at least 80% of individual KPIs (10 KPIs) yet to be finalised with individual KMP.</p> <p>Any anomalies or discretionary elements are approved and validated by the Board.</p> <p>No more than 10% of an Individual's STI will be awarded if the Group target is not met.</p>	Underlying net profit after tax growth		Performance	% of performance-related STI	< 8%	0%	8% to 10%	50% to 100% pro-rata	> 10%	100%
Underlying net profit after tax growth											
Performance	% of performance-related STI										
< 8%	0%										
8% to 10%	50% to 100% pro-rata										
> 10%	100%										
Rewarding performance	<p>The STI performance ratings are determined under a predetermined matrix with the Board determination final.</p>										
Mandatory deferral of STI	<p>Effective from 1 January 2017 a mandatory deferral of a portion of STI was introduced to reinforce alignment with shareholder interests. Grants will be determined at the end of each year and then held for one year until vesting. This achieves additional retention and alignment of executives with shareholder interests.</p> <p>The deferred STI component for 2017 will be calculated based on up to 50% of the STI amount, above a minimum threshold, depending on the position.</p> <p>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 2018. That is, based on a Black-Scholes-Merton pricing model without discounting for service or performance hurdles. The deferred component taken form of equity rights.</p> <p>Once the STI awarded as service rights has been granted, there are no further performance measures attached to the performance rights other than continued tenure for the vesting period (one year).</p>										

## 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 Employee Incentive Plan. See section 5 for further details. Under the G8 Education Employee Incentive Plan, selected senior executives are offered performance rights (being a nil exercise price right to fully paid ordinary shares of G8 Education Limited), subject to satisfying the relevant requirements.										
Time of grant	All equity grants will be made after the AGM each year but based on values determined in February.										
Time restrictions	Equity grants awarded to the CEO and other executive KMP 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 the CEO and other executive KMP are subject to one performance condition, as follows: <table border="1" data-bbox="363 1025 1398 1281"> <thead> <tr> <th colspan="2">Compound annual growth in Underlying EPS (3 years)</th> </tr> <tr> <th>Performance</th> <th>% of equity to vest</th> </tr> </thead> <tbody> <tr> <td>&lt; 10%</td> <td>0%</td> </tr> <tr> <td>10% to 15%</td> <td>50% to 100% pro-rata</td> </tr> <tr> <td>&gt; 15%</td> <td>100%</td> </tr> </tbody> </table>	Compound annual growth in Underlying EPS (3 years)		Performance	% of equity to vest	< 10%	0%	10% to 15%	50% to 100% pro-rata	> 15%	100%
Compound annual growth in Underlying EPS (3 years)											
Performance	% 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 CEO and other executive KMP 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.										

## Executive Share Plan

In accordance with the terms and conditions of the Plan approved by shareholders on 21 May 2015, selected KMP are granted the right to acquire shares at a nominated exercise price subject to agreed service and performance criteria (i.e. vesting conditions).

The Plan is an equity plan where shares are acquired up front through the provision of a limited recourse loan from the Company, provided for the sole purpose of acquiring shares in the Company. It operates much like a traditional option plan, as the outstanding loan balance is effectively the 'exercise price' that must be paid before any value can be realised.

The following is a summary of the key terms and conditions of the Plan:

- The loan is repayable on termination date (3 years from approval) or earlier if there is a default in which case the shares are no longer held in escrow.
- No interest is payable on the loan.
- The shares are held in escrow as security for the outstanding loan.
- Limited recourse – if the KMP fails to repay the outstanding loan balance in accordance with the plan, they are under no obligation to repay the full amount of the outstanding loan balance and the Group must accept the net proceeds of the sale or buy-back of the shares in escrow in full satisfaction of the outstanding loan balance.
- Borrower is not able to sell, transfer or dispose of shares in escrow. However, the Borrower receives the benefits associated with the shares such as dividends and voting rights during the escrow period.
- The shares rank equally with other ordinary shares on issue with respect to dividends, distribution or return of capital and other rights.
- If borrower leaves the employment of G8 then all secured shares are transferred to a party nominated by G8 and the money owed reduced by number of shares transferred multiplied by \$5 per share – exception is where the borrower is unfit for work.
- Shares are released to borrower in tranches – if conditions are not met then the shares are transferred to a party nominated by G8.
  - 1 year – 1/3 shares if EPS @ 31/12/15 is 40% more than EPS at 31/12/14
  - 2 years – 1/3 shares if EPS @ 31/12/16 is 15% above EPS at 31/12/15.
  - 3 years – 1/3 shares if EPS @ 31/12/17 is 15% above EPS at 31/12/16.

During 2016 1/3 of the shares were cancelled due to conditions of performance criteria not being met. Due to the vesting conditions not being met in 2016 1/3 of the shares held in escrow were not issued. The Group will discontinue the Executive Share Plan, which was in place for the full year in 2016 and will implement the new LTI scheme subject to shareholder approval as outlined above.

## 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.

### Hedging and margin lending prohibition

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

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

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

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

### Relationship between G8 Education performance and executive KMP remuneration

The performance of the Group and remuneration paid to KMP over the last 5 years is summarised in the table below.

	2012	2013	2014	2015	2016
	\$'000	\$'000	\$'000	\$'000	\$'000
Total revenue	179,991	275,165	491,288	706,164	778,513
EBIT	27,039	47,350	105,965	160,423	160,691
Net Profit After Tax	19,209	31,072	52,731	88,581	80,265
Underlying EBIT (unaudited, Non IFRS)^	30,012	50,593	100,248	145,438	160,660
Underlying NPAT (unaudited, Non IFRS)^	19,730	32,276	60,613	87,131	93,342
Underlying EPS (cents)	9.2	11.72	18.57	23.87	24.68
Average quarterly dividend per share (cents)	1.75	3.0	4.75	6.0	6.0
Share price as at 31 December (\$)	1.63	3.16	4.17	3.57	3.59

^Underlying EBIT equals NPBT plus finance costs plus non-operating costs as per page 9

^^ Underlying NPAT equals NPAT plus non-operating costs as per page 9

	2012	2013	2014	2015	2016
<b>Total Fixed Remuneration</b>					
G Carroll	-	-	-	-	210,562
C Scott	420,411	444,490	667,460	745,433	896,783
J Roberts	-	-	248,908	412,418	566,698
T King	-	-	-	73,048	310,066
A Perriam	-	-	-	214,010	263,569
C Sacre (resigned 27 May 2016)	271,043	285,531	379,784	374,606	154,690
J Fraser (resigned 29 August 2014)	196,314	200,555	191,054	-	-
K Lacey (resigned 16 January 2013)	50,271	16,781	-	-	-
D Peters (resigned 27 September 2012)	128,667	-	-	-	-
<b>Executive Share Plan</b>					
C Scott	-	-	-	105,284	-
J Roberts	-	-	-	105,284	-
Ann Perriam	-	-	-	12,865	-
C Sacre (resigned 27 May 2016)	114,562	133,893	58,000	120,257	(105,284)
J Fraser	76,375	89,262	48,649	-	-
K Lacey (resigned 16 January 2013)	59,237	-	-	-	-
<b>Total</b>	<b>1,316,880</b>	<b>1,170,512</b>	<b>1,593,855</b>	<b>2,163,205</b>	<b>2,297,084</b>

Since 2012 underlying EPS has increased by 169%, dividends per share have increased by 243% and the share price has increased by 120% demonstrating a balance between strategic growth and shareholder value.

During the same period, total remuneration paid to KMP has increased by 87%. Total remuneration paid to KMP as a proportion of underlying Net profit After Tax was 5.3% in 2012 and has decreased to 2.1% in 2016.

### Executive remuneration table – audited statutory disclosure

	Year	Fixed Remuneration					Executive Share Plan	Total	Proportion of total		
		Short-term		Post employment		Performance related			Share Plan related		
Amount \$		Salary	STI	Dividends from Share Plan	Superannuation benefits	Termination payment	Share based Total payment*		%	%	
G Carroll <sup>^</sup>	2016	199,110	50,000	-	11,452	-	260,562	-	260,562	19%	0%
	2015	-	-	-	-	-	-	-	-	-	-
C Scott	2016	889,218	168,750	90,000	7,564	-	1,155,532	-	1,155,532	15%	8%
	2015	739,264	-	120,000	6,169	-	865,433	105,284	970,717	-	0
J Roberts	2016	546,834	108,750	90,000	19,864	-	765,448	-	765,448	14%	12%
	2015	391,273	-	120,000	20,145	-	531,418	105,284	636,702	-	0
T King	2016	290,385	70,000	-	19,681	-	380,066	-	380,066	18%	-
	2015	67,308	-	-	5,740	-	73,048	-	73,048	-	-
A Perriam	2016	243,923	30,625	10,998	19,646	-	305,192	-	305,192	10%	4%
	2015	197,077	-	14,664	16,933	-	228,674	12,865	241,539	-	0
C Sacre <sup>**</sup>	2016	141,814	-	100,000	12,876	14,870	269,560	(105,284)	164,276	-	37%
	2015	350,000	-	120,000	24,606	-	494,606	120,257	614,863	-	0
<b>Total</b>	<b>2016</b>	<b>2,311,284</b>	<b>428,125</b>	<b>290,998</b>	<b>91,083</b>	<b>14,870</b>	<b>3,136,359</b>	<b>(105,284)</b>	<b>3,031,075</b>		
<b>Total</b>	<b>2015</b>	<b>1,744,922</b>	<b>-</b>	<b>374,664</b>	<b>73,593</b>	<b>-</b>	<b>2,193,179</b>	<b>343,690</b>	<b>2,536,869</b>		

\*Share based payments for the year 2016 is nil due to reversal of share based payment from non-vesting shares from 2015 offsetting 2016 share based payment.

<sup>^</sup>G Carroll appointed 25 July 2016

<sup>\*\*</sup>C Sacre resigned 27 May 2016

## 5. KMP equity interests

The tables below set out the equity interests held by Non-executive Directors (“NEDs”) and executive KMP.

Shares		Balance at the start of the year	Shares cancelled under limited recourse loans disclosed as share options	Other changes during the year	Balance at the end of the year
<b>Directors of G8 Education Limited</b>					
Ordinary Shares					
M Johnson	Directly	-	-	25,000	25,000
C Scott	Beneficially*	1,000,000	(333,333)	-	666,667
B Bailison	Directly	-	-	-	-
M Reynolds	Directly	24,195	-	-	24,195
S Forrester	Directly	5,423	-	10,000	15,423
D Foster	Directly	-	-	14,587	14,587
<b>KMP of G8 Education Limited</b>					
Ordinary Shares					
G Carroll		-	-	-	-
J Roberts	Beneficially*	1,000,000	(333,333)	-	666,667
C Sacre	Beneficially*	1,000,000	(1,000,000)	-	-
A Perriam	Beneficially*	122,198	(40,733)	-	81,465
T King	Indirectly	-	-	631,329	631,329

\*Shares are issued as part the Executive Share Plan that have not vested and are not exercisable.

2016 Name	Balance at the start of the year	Limited recourse loans cancelled due to vesting condition not being met	Limited recourse loans to be cancelled due to vesting condition not being met	Forfeiture due to resignation	Balance at the end of the year	Highest Indebtedness during the year
	\$	\$	\$	\$	\$	\$
C Scott	5,000,000	(1,666,667)	(1,666,667)	-	1,666,667	3,333,333
J Roberts	5,000,000	(1,666,667)	(1,666,667)	-	1,666,667	3,333,333
C Sacre	5,000,000	(1,666,667)	-	(3,333,333)	-	3,333,333
A Perriam	610,990	(203,663)	(203,663)	-	203,663	407,327



## 6. 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 six months' written notice. Other executive KMP are required to provide G8 Education with between 3 months' and 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 six months' written notice. For other executive KMP, the notice period varies from three to six months' written notice. The Company may make payment in lieu of the notice period based on TFR. On termination on notice by G8 Education, unless the Board determines otherwise:  Unvested STI or LTI benefits may be exercised or paid within 30 days of notice being given.
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: <ul style="list-style-type: none"><li>• all unvested STI or LTI benefits will be forfeited; and</li><li>• any ESS instruments provided to the employee on vesting of STI or LTI awards that are held in trust, will be forfeited.</li></ul>
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.

## Corporate Governance

G8 Education Limited is strongly committed to good corporate governance practices and substantially complies with the ASX Corporate Governance Council's (CGC) Corporate Governance Principles and Recommendations (Third Edition). The board of directors guides and monitors the business and affairs of G8 Education Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. G8 Education's compliance with the Principles are found in the corporate governance section of our website: [www.g8education.edu.au/investor-information/corporate-governance](http://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 2016, G8 Education engaged Ernst & Young to perform non-audit services relating to other audit advice. The Board has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

## Auditor's 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 35.

## 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**  
**20 February 2017**



Ernst & Young  
111 Eagle Street  
Brisbane QLD 4000 Australia  
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333  
Fax: +61 7 3011 3100  
ey.com/au

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

As lead auditor for the audit of G8 Education Limited for the financial year ended 31 December 2016, 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.

Ernst & Young

Ric Roach  
Partner  
20 February 2017



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## Section 02

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### Financial Report

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## Consolidated Income Statement

For the Year ended 31 December 2016

	Notes	Consolidated	
		2016 \$'000	2015 \$'000
<b>Revenue</b>			
Revenue from continuing operations	2	774,970	686,747
Other income	3	3,543	8,927
Profit on sale of financial assets		-	10,490
<b>Total revenue</b>		<b>778,513</b>	<b>706,164</b>
<b>Expenses</b>			
Employee benefits		(432,126)	(382,320)
Occupancy		(88,396)	(77,994)
Direct costs of providing services		(59,348)	(53,052)
Depreciation	4	(11,707)	(9,372)
Other expenses		(25,202)	(20,386)
Finance costs	4	(47,065)	(40,267)
<b>Total expenses</b>		<b>(663,844)</b>	<b>(583,391)</b>
<b>Profit before income tax</b>		<b>114,669</b>	<b>122,773</b>
Income tax expense	5	(34,404)	(34,192)
<b>Profit for the year attributable to members of the parent entity</b>		<b>80,265</b>	<b>88,581</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	6	21.22	24.27
Diluted earnings per share	6	21.22	24.27

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

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	Consolidated	
		2016 \$'000	2015 \$'000
<b>Profit for the year</b>		<b>80,265</b>	<b>88,581</b>
<b>Other comprehensive income, net of income tax</b>			
<b>Items that are or may be reclassified to profit or loss:</b>			
Exchange differences on translation of foreign operations	22	(455)	1,514
Recycle to income statement for amount reversed in current period	22	(3,559)	-
Effective portion of changes in fair value of cash flow hedges	22	(1,042)	3,559
<b>Total other comprehensive income</b>		<b>(5,056)</b>	<b>5,073</b>
<b>Total comprehensive income for the year</b>		<b>75,209</b>	<b>93,654</b>

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

## Consolidated Balance Sheet

As at 31 December 2016

	Notes	Consolidated	
		2016 \$'000	2015 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	18	26,467	193,840
Trade and other receivables	7	22,948	22,943
Other current assets	8	9,234	9,754
Current tax asset		2,923	-
<b>Total current assets</b>		<b>61,572</b>	<b>226,537</b>
<b>Non-current assets</b>			
Property plant and equipment	9	54,845	41,370
Deferred tax assets	10	15,415	21,678
Goodwill	16	1,015,002	944,604
Other non-current assets	8	23,022	-
Derivative Financial Instruments	20	3,359	-
<b>Total non-current assets</b>		<b>1,111,643</b>	<b>1,007,652</b>
<b>Total assets</b>		<b>1,173,215</b>	<b>1,234,189</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	88,847	83,054
Borrowings	19	-	148,891
Provisions	30	25,956	22,824
Derivative financial instruments	20	-	1,184
Current tax liabilities		-	4,400
<b>Total current liabilities</b>		<b>114,803</b>	<b>260,353</b>
<b>Non-current liabilities</b>			
Borrowings	19	410,649	366,270
Other payables	11	754	712
Provisions	12	4,783	4,069
Derivative financial instruments	20	16,351	-
<b>Total non-current liabilities</b>		<b>432,537</b>	<b>371,051</b>
<b>Total liabilities</b>		<b>547,340</b>	<b>631,404</b>
<b>Net assets</b>		<b>625,875</b>	<b>602,785</b>
<b>EQUITY</b>			
Contributed equity	21	641,848	603,043
Reserves	22	35,649	43,635
Retained earnings	22	(51,622)	(43,893)
<b>Total equity</b>		<b>625,875</b>	<b>602,785</b>

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

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

		Contributed Equity	Hedging Reserve	Translation Reserve	Share Based Payment Reserve	Profits Reserve	Retained Earnings	Total
Consolidated	Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance 1 January 2015</b>		<b>548,374</b>	-	<b>4,512</b>	-	<b>22,745</b>	<b>(33,622)</b>	<b>542,009</b>
Profit for the year		-	-	-	-	-	88,581	88,581
Other comprehensive income		-	3,559	1,514	-	-	-	5,073
<b>Total comprehensive income for the year</b>		-	<b>3,559</b>	<b>1,514</b>	-	-	<b>88,581</b>	<b>93,654</b>
<b>Transactions with owners in their capacity as owners</b>								
Contributions of equity, net of transaction cost	21	54,669	-	-	-	-	-	54,669
Transfer of profits reserve	22	-	-	-	-	98,852	(98,852)	-
Share based payment expense	32	-	-	-	344	-	-	344
Dividends provided for or paid	23	-	-	-	-	(87,891)	-	(87,891)
		<b>54,669</b>	-	-	<b>344</b>	<b>10,961</b>	<b>(98,852)</b>	<b>(32,878)</b>
<b>Balance 31 December 2015</b>		<b>603,043</b>	<b>3,559</b>	<b>6,026</b>	<b>344</b>	<b>33,706</b>	<b>(43,893)</b>	<b>602,785</b>
<b>Balance 1 January 2016</b>								
		<b>603,043</b>	<b>3,559</b>	<b>6,026</b>	<b>344</b>	<b>33,706</b>	<b>(43,893)</b>	<b>602,785</b>
Profit for the year		-	-	-	-	-	80,265	80,265
Other comprehensive income		-	(4,601)	(455)	-	-	-	(5,056)
<b>Total comprehensive income for the year</b>		-	<b>(4,601)</b>	<b>(455)</b>	-	-	<b>80,265</b>	<b>75,209</b>
<b>Transactions with owners in their capacity as owners</b>								
Contributions of equity, net of transaction cost	21	38,805	-	-	-	-	-	38,805
Transfer of profits reserve	22	-	-	-	-	87,994	(87,994)	-
Share based payment expense	32	-	-	-	(105)	-	-	(105)
Dividends provided for or paid	23	-	-	-	-	(90,819)	-	(90,819)
		<b>38,805</b>	-	-	<b>(105)</b>	<b>(2,825)</b>	<b>(87,994)</b>	<b>(52,119)</b>
<b>Balance 31 December 2016</b>		<b>641,848</b>	<b>(1,042)</b>	<b>5,571</b>	<b>239</b>	<b>30,881</b>	<b>(51,622)</b>	<b>625,875</b>

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



## Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	Consolidated	
		2016 \$'000	2015 \$'000
<b>Cash flows from Operating Activities</b>			
Receipts from customers (net of GST)		769,277	676,870
Payments to suppliers and employees (net of GST)		(601,491)	(516,762)
Interest received		1,198	2,861
Interest paid		(25,431)	(22,354)
Income taxes paid		(34,970)	(45,563)
<b>Net cash inflows from operating activities</b>	13	<b>108,583</b>	<b>95,052</b>
<b>Cash flows from Investing Activities</b>			
Payments for purchase of businesses (net of cash acquired)		(66,667)	(128,940)
Payments for deposits on purchase of businesses		(15,473)	-
Proceeds from sale of financial assets		-	52,073
Payments for purchase of financial assets		-	(33,182)
Payments for property plant and equipment		(25,009)	(21,082)
<b>Net cash outflows from investing activities</b>		<b>(107,149)</b>	<b>(131,131)</b>
<b>Cash flows from Financing Activities</b>			
Share issue costs		(57)	(151)
Debt issue costs		(12,747)	(4,282)
Dividends paid		(57,964)	(53,244)
Proceeds from issue of corporate note		269,281	153,617
Repayment of corporate note		(411,208)	-
Proceeds from issue of shares		6,537	12,934
Inflows from borrowings		40,000	-
Premium paid on FX option		(11,028)	-
Proceeds from sale of FX option		8,281	-
<b>Net cash inflows (cash outflows) from financing activities</b>		<b>(168,905)</b>	<b>108,874</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(167,471)</b>	<b>72,795</b>
Cash and cash equivalents at the beginning of the financial year		193,826	120,179
Effects of exchange rate changes on cash		98	852
<b>Cash and cash equivalents at the end of the financial year</b>	18	<b>26,453</b>	<b>193,826</b>

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



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# 1. Financial Overview

## Note 1: Segment Information

### (a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Executive Team that are used to make strategic decisions. The Executive Team has been identified as the Chief Operating Decision Maker that makes strategic decisions.

Prior to 2016, the function that allocated resources and assessed the operating performance was the Board. During 2016 there have been a number of changes at Board and senior executive level at the Group, both in terms of personnel and processes. The key changes can be summarised as follows:

- Formation of an executive leadership group, comprising the MD, CEO, CFO and GM Operations (the “Executive Team”);
- The Executive Team meeting regularly (weekly) to review performance and allocate resources to drive operating results, with decisions being made as a team;
- Responsibility for the formation of the Group’s strategy being handed from the Board to the Executive Team, with the Board’s role evolving to reviewing and endorsing the strategy;
- Amending the delegations of authority to provide increased authority to the Executive Team, with key expenses/contracts requiring joint approval/signature by the Executive Team.

As a result of the above changes it was considered that the chief operating decision maker of the Group is now the Executive Team, not the Board.

The Executive Team considers the business as one Group of centres and 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
<b>2016</b>			
Revenue from external customers	760,203	14,767	774,970
Non-current assets	1,061,052	31,817	1,092,869
<b>2015</b>			
Revenue from external customers	673,660	13,087	686,747
Non-current assets	955,899	30,075	985,974

## Note 2: Revenue

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Revenue from child care centres	754,757	662,717
Funding relating to child care operations	18,203	21,962
	<b>772,960</b>	<b>684,679</b>
<i>Other revenue</i>		
Management fee Income	2,010	2,068
<b>Total revenue continuing operations</b>	<b>774,970</b>	<b>686,747</b>

### Accounting Policy

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Revenue is recognised for the major business activities as follows:

(i) Child care fees

Fees paid by families and/or the Australian Government (Child Care Benefit and Child Care Tax Rebate) are recognised as and when a child attends a child care service.

Revenue received in advance from parents and guardians and government is recognised as deferred income and classified as a current liability. (See note 11)

(ii) Government Funding/Grants

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.

## Note 3: Other Income

	Consolidated	
	2016	2015
	\$'000	\$'000
Net gain on disposal of assets	-	556
Deferred consideration not payable	2,500	5,755
Interest	1,043	2,616
	<b>3,543</b>	<b>8,927</b>

### Accounting Policy

#### (i) Deferred consideration

Deferred consideration not payable and recognised in accordance with note 15.

The deferred consideration is not payable due to certain centres not achieving some, or all of the earn-out hurdle for the earn-out period. As a result, in accordance with AASB 3 Business Combinations, the earn-out amounts not payable which were previously disclosed as a liability in deferred consideration has been written back to the Consolidated Income Statement.

#### (ii) Interest income

Interest income is recognised using the effective interest method.

## Note 4: Expenses

	Consolidated	
	2016	2015
	\$'000	\$'000
<b>Profit before income tax includes the following specific expenses:</b>		
Depreciation	11,707	9,372
<b>Finance Costs</b>		
Interest and finance charges paid/payable	39,017	28,299
Foreign Exchange Loss (refer note 17)	8,048	11,968
	<b>47,065</b>	<b>40,267</b>
Rental expenses relating to operating leases		
Minimum lease payments	79,876	70,500
Bad & doubtful debts	671	480

## Note 5: Income Tax Expense

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Income tax expense</b>		
Current Tax	27,564	40,427
Deferred Tax	6,840	(6,235)
<b>Income tax expense</b>	<b>34,404</b>	<b>34,192</b>
Income tax expense is attributable to:		
Profit from continuing operations	34,404	34,192
	<b>34,404</b>	<b>34,192</b>
<b>Deferred income tax expense included in income tax expense comprises:</b>		
Decrease / (increase) in deferred tax assets (refer note 10)	6,840	(6,210)
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit from continuing operations before income tax expense	114,669	122,773
Tax on operations at the Australian tax rate of 30% (2015: 30%)	34,401	36,832
<b>Tax effect of amounts which are not deductible (taxable) in calculating taxable income</b>		
Adjustment relating to prior year	215	(633)
Entertainment	139	175
Deferred consideration not payable	(750)	(1,726)
Other non-allowable items	659	(359)
Difference in overseas tax rates	(260)	(97)
<b>Income tax expense</b>	<b>34,404</b>	<b>34,192</b>
Weighted average tax rate	30%	28%
<b>(c) Amounts recognised directly in equity</b>		
Aggregate current and deferred tax arising in the reporting year and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax - debited (credited) directly to equity	577	20
<b>(d) Tax expense (income) relating to items of other comprehensive income</b>		
Cash flow hedges	-	69

## Tax consolidation

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

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

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

#### Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

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

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

#### Nature of the tax funding agreement

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

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

### (iii) Tax related contingencies

At 31 December 2016 there are no tax related contingencies.

## Accounting Policy

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

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

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

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively 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 profit and loss, 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.

## Note 6: Earnings per Share

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>CPS</b>	<b>CPS</b>
<b>(a) Basic earnings per share</b>		
Profit attributable to the ordinary equity holders of the company	21.22	24.27
<b>(b) Diluted earnings per share</b>		
Profit from continuing operation attributable to the ordinary equity holders of the Company	21.22	24.27
	<b>\$'000</b>	<b>\$'000</b>
<b>(c) Reconciliation of earnings used in calculating earnings per share</b>		
<b>Basic earnings per share</b>		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	80,265	88,581
<b>Diluted earnings per share</b>		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	80,265	88,581
	<b>Number</b>	<b>Number</b>
<b>(d) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share*	378,206,976	364,999,576
<b>Adjustments for calculation of diluted earnings per share:</b>		
Options	-	-
<b>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</b>	<b>378,206,976</b>	<b>364,999,576</b>

### 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.

## Note 7: Current Assets - Trade and Other Receivables

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	20,113	17,646
Allowance for impairment of receivables (note (a) below)	(718)	(618)
	<b>19,395</b>	<b>17,028</b>
GST receivable	1,237	2,791
Other debtors	2,316	3,124
<b>Total trade and other receivables</b>	<b>22,948</b>	<b>22,943</b>

### (a) Impaired trade receivables

As at 31 December 2016 current trade receivables of the Group with a nominal value of \$1,435,288 (2015: \$1,235,326) were assessed for impairment. The amount of the allowance for impairment was \$718,486 (2015: \$617,663).

The ageing of these receivables is as follows:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
31-60 days	247	-
61+ days	1,189	1,235

Movements in the allowance for impairment of receivables are as follows:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	618	423
Allowance for impairment recognised during the year	671	480
Receivables written off during the year as uncollectable	(571)	(287)
Exchange differences	-	2
<b>Closing balance</b>	<b>718</b>	<b>618</b>

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the 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 2016, trade receivables of \$6,294,399 (2015: \$6,797,000) 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:

	Consolidated	
	2016	2015
	\$'000	\$'000
Up to 3 months	5,827	6,689
3 to 6 months	47	23
Over 6 months	420	85
	<b>6,294</b>	<b>6,797</b>

### (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 17.

#### Accounting Policy

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

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

Under the Child Care Management System (CCMS), implemented in July 2008, Child Care Benefit is 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 relate to parent fees where amounts are past due and not paid in advance.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expenses.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statements of comprehensive income within other expenses. When a trade receivable is uncollectable, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

## Note 8: Current and Non-Current Assets - Other

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Prepayments	5,481	4,721
Deposits	3,753	5,033
<b>Total other current assets</b>	<b>9,234</b>	<b>9,754</b>
<b>Non- Current</b>		
Deposits on acquisitions	23,022	-
<b>Total other current and non-current assets</b>	<b>32,256</b>	<b>9,754</b>

### Accounting Policy

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

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

	Buildings	Vehicles	Furniture, fittings and equipment	Total
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
<b>Year ended 31 December 2016</b>				
Opening net book amount	4,450	581	36,339	41,370
Additions through business combinations (refer note 15)	-	-	270	270
Additions - other	-	-	25,141	25,141
Disposals	-	(202)	(13)	(215)
Depreciation charge	(152)	(67)	(11,488)	(11,707)
Effect of foreign exchange on depreciation	-	-	(14)	(14)
<b>Closing net book amount</b>	<b>4,298</b>	<b>312</b>	<b>50,235</b>	<b>54,845</b>
<b>At 31 December 2016</b>				
Cost	5,046	1,184	83,867	90,097
Accumulated depreciation	(748)	(872)	(33,632)	(35,252)
<b>Net Book amount</b>	<b>4,298</b>	<b>312</b>	<b>50,235</b>	<b>54,845</b>
<b>Consolidated</b>				
<b>Year ended 31 December 2015</b>				
Opening net book amount	4,602	951	24,022	29,575
Additions through business combinations (refer note 15)	-	97	2,320	2,417
Additions - other	-	50	19,100	19,150
Disposals	-	(395)	(65)	(460)
Depreciation charge	(152)	(122)	(9,099)	(9,373)
Effect of foreign exchange on depreciation	-	-	61	61
<b>Closing net book amount</b>	<b>4,450</b>	<b>581</b>	<b>36,339</b>	<b>41,370</b>
<b>At 31 December 2015</b>				
Cost	5,046	1,386	58,483	64,915
Accumulated depreciation	(596)	(805)	(22,144)	(23,545)
<b>Net Book amount</b>	<b>4,450</b>	<b>581</b>	<b>36,339</b>	<b>41,370</b>

### (a) Leasehold Improvements

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Cost	50,676	31,449
Accumulated depreciation	(14,361)	(9,328)
<b>Net book amount</b>	<b>36,315</b>	<b>22,121</b>

### (b) Non-current assets pledged as security

Refer to note 19 for information on the non-current assets pledged as security by the Company and its controlled entities.

### Accounting Policy

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

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

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 Income Statement.

## Note 10: Non-Current Assets – Deferred Tax Assets

	Consolidated	
	2016 \$'000	2015 \$'000
<b>Deferred tax asset</b>		
<b>The balance comprises temporary differences attributable to:</b>		
Employee benefits	8,510	7,143
Share issue transaction costs	1,295	2,132
	<b>9,805</b>	<b>9,275</b>
<b>Other</b>		
s40-880 Deductions	402	-
Doubtful debts	185	170
Accrued expenses	2,396	3,628
Foreign Exchange Loss (derivatives)	2,050	8,962
Provision	1,199	-
<b>Sub total other</b>	<b>6,232</b>	<b>12,760</b>
<b>Total deferred tax assets</b>	<b>16,037</b>	<b>22,035</b>
<b>Deferred Tax Liability</b>		
Buildings	(216)	-
Prepayments	(406)	(357)
<b>Total deferred tax liability</b>	<b>(623)</b>	<b>(357)</b>
<b>Net deferred tax asset</b>	<b>15,415</b>	<b>21,678</b>

	Consolidated				
	Employee Benefits \$'000	Share Issue Transaction Costs \$'000	Foreign Exchange \$'000	Other \$'000	Total \$'000
<b>At 1 January 2015</b>	<b>6,503</b>	<b>2,967</b>	<b>5,386</b>	<b>592</b>	<b>15,448</b>
Charged to the consolidated income statement	640	(910)	3,533	2,949	6,210
Charged directly to equity	-	77	-	(57)	20
<b>At 31 December 2015</b>	<b>7,143</b>	<b>2,132</b>	<b>8,919</b>	<b>3,484</b>	<b>21,678</b>
Charged to the consolidated income statement	1,367	(857)	(6,869)	(483)	(6,840)
Charged directly to equity	-	18	-	559	577
<b>At 31 December 2016</b>	<b>8,510</b>	<b>1,293</b>	<b>2,050</b>	<b>3,560</b>	<b>15,415</b>



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

	Notes	Consolidated	
		2016 \$'000	2015 \$'000
Trade payables		7,534	7,587
Deferred centre acquisitions	15	3,998	3,655
Dividends payable	23	22,951	22,369
Centre enrolment advances		8,260	8,754
Other payables and accruals		35,872	29,388
Deferred income		10,232	11,301
<b>Total Current</b>		<b>88,847</b>	<b>83,054</b>
Other payables	15	754	712
<b>Total Non-Current</b>		<b>754</b>	<b>712</b>

Trade payables are non-interest bearing and are normally settled on 30-day terms.

### Accounting Policy

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

## Note 12: Non-Current Liabilities - Provisions

	Consolidated	
	2016 \$'000	2015 \$'000
Employee benefits	4,783	4,069
	<b>4,783</b>	<b>4,069</b>

## Note 13: Reconciliation of Profit After Tax to Net Cash Flows from Operating Activities

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit for the year	80,265	88,581
Depreciation/(gain)	11,707	9,372
Foreign exchange loss on Singapore corporate notes	(10,080)	8,378
Fair value adjustment to derivatives	18,128	-
Net gain on sale of shares	-	(7,343)
Net loss on sale of assets	244	-
Write back of deferred consideration not payable	(2,500)	(5,754)
Increase in borrowings cost prepayments	11,940	1,574
(Increase)/Decrease in deferred tax asset	6,263	(6,210)
(Increase) in trade and other debtors	(8,464)	(10,020)
Increase in trade and other creditors	4,868	16,098
Increase in other provisions	3,846	3,520
Non - cash employee benefits expense - share based payments	(105)	344
Increase/(Decrease) in provision for income taxes payable	(7,323)	(5,255)
Acquisition expenses	-	915
Net exchange differences	(206)	852
<b>Net cash inflows from operating activities</b>	<b>108,583</b>	<b>95,052</b>

## 2. Business Combinations, Goodwill & Impairment

### Note 14: 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 16. The recoverable amounts of goodwill have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 16 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. If the earn out target is not met then the amount not paid of the deferred contingent consideration is taken to the income statement as a credit and the corresponding entry against the liability. The value of the deferred consideration is reviewed at each reporting date.

## Note 15: Business Combinations

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

During the year the Group purchased 21 centres from various vendors as outlined below:

Number of centres	6	1	1	2	4	4	1	1	1	21
State	NSW/VIC/ Singapore	NSW	VIC	VIC	NSW	WA	NSW	QLD	VIC	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Purchase Consideration</b>										
Cash consideration	6,089	2,867	4,648	5,033	11,719	10,012	5,760	9,000	7,746	62,874
Contingent consideration	1,683	-	-	-	2,315	-	-	-	-	3,998
Purchase price adjustments	(100)	(41)	(73)	(23)	(63)	(216)	(83)	(149)	-	(748)
<b>Total purchase consideration</b>	<b>7,672</b>	<b>2,826</b>	<b>4,575</b>	<b>5,010</b>	<b>13,971</b>	<b>9,796</b>	<b>5,677</b>	<b>8,851</b>	<b>7,746</b>	<b>66,124</b>
<b>Assets &amp; Liabilities acquired at fair value</b>										
Property, Plant & equipment	15	5	31	11	190	18	-	-	-	270
Payables	(3)	(9)	-	-	-	12	(57)	(90)	-	(147)
Employee benefit liabilities	(86)	(18)	-	-	-	(130)	(44)	(98)	-	(376)
Net identifiable assets/(liabilities) acquired	(74)	(22)	31	11	190	(100)	(101)	(188)	-	(253)
Goodwill	7,746	2,848	4,544	4,999	13,781	9,896	5,778	9,039	7,746	66,377
	<b>7,672</b>	<b>2,826</b>	<b>4,575</b>	<b>5,010</b>	<b>13,971</b>	<b>9,796</b>	<b>5,677</b>	<b>8,851</b>	<b>7,746</b>	<b>66,124</b>
<b>Revenue &amp; profit contribution from the date of acquisition to period end 31 December 2016</b>										
Revenue	4,908	1,044	1,305	3,032	1,291	2,046	675	1,070	-	15,371
Profit before tax	447	360	149	679	47	507	239	322	(10)	2,740
<b>Revenue &amp; profit contribution for full year 2016</b>										
Revenue	6,975	1,756	3,806	6,192	7,141	8,063	2,442	3,968	2,429	42,772
Profit before tax	1,096	510	669	1,643	1,110	2,184	765	1,190	706	9,873

Acquisition costs of \$2,574,323 (2015: \$916,000) are included in other expenses in the consolidated income statement.

As at 31 December 2016 accounting for the 2016 acquisitions are provisional in nature due to final completion statements not being received at year end.

During the year accounting adjustments were made to provisional amounts recognised in 2015 as outlined below:

State	2015	2016	Final
	Provisional VIC/NSW/ QLD/SA/WA	Adjustments VIC/NSW/ QLD/SA/WA	VIC/NSW/ QLD/SA/WA
	\$'000	\$'000	\$'000
<b>Purchase Consideration</b>			
Cash consideration	137,170	3,792	140,962
Contingent consideration	3,080	42	3,122
Purchase price adjustments	281	507	788
<b>Total purchase consideration</b>	<b>140,531</b>	<b>4,341</b>	<b>144,872</b>
<b>Assets &amp; Liabilities acquired at fair value</b>			
Property, Plant & equipment	2,417	30	2,447
Payables	(515)	0	(515)
Employee benefit liabilities	(1,634)	0	(1,634)
Net identifiable assets/(liabilities) acquired	268	30	298
Goodwill	140,263	4,311	144,574
	<b>140,531</b>	<b>4,341</b>	<b>144,872</b>

The above amounts relate to accounting adjustments for assets and liabilities taken on at acquisition date but not finalised at 31 December 2015.

## 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 2016	Total potential contingent consideration payable \$'000	Carrying value \$'000	Conditions
Acquisition of 1 Centre*	1,683	1,683	24 month performance hurdle based on EBIT
Acquisition of 3 Centres*	2,315	2,315	24 month performance hurdle based on EBIT
Acquisition of 1 centre	1,200	754	19 years occupancy hurdle based on licence capacity
<b>Total</b>	<b>5,198</b>	<b>4,752</b>	

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

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

### Movement in Contingent consideration 2015

Initial fair value of the contingent consideration at acquisition date	10,432
Financial liability for contingent consideration as at 31 December 2014	10,432
Write back of contingent consideration to P&L performance condition not met - other income	(5,755)
Write back of contingent consideration to Goodwill performance condition not met	(2,938)
Paid contingent consideration performance condition met	(1,622)
Contingent consideration for new acquisitions	4,250
<b>Total consideration payable as at 31 December 2015</b>	<b>4,367</b>

### Movement in Contingent consideration 2016

Initial fair value of the contingent consideration at acquisition date	4,367
Financial liability for contingent consideration as at 31 December 2015	4,367
Write back of contingent consideration performance condition not met - other income	(2,500)
Paid contingent consideration performance condition met	(1,112)
Contingent consideration for new acquisitions - Goodwill	3,998
<b>Total consideration payable as at 31 December 2016</b>	<b>4,752</b>

Adjustments to the contingent consideration from acquisition to 31 December 2016 were recognised in the statement of profit and loss. The fair value is determined using the discount cash flow method on contingent consideration payable over 12 months as such the carrying value is equal to the fair value.

## Accounting Policy

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

Acquisition costs paid by the Company are expensed.

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

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

Contingent consideration is classified either as equity or 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 are recognised as other income.

## Note 16: Non-Current Assets - Goodwill

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Goodwill</b>		
<b>Year ended 31 December</b>		
Opening net book amount	944,604	809,162
Additions	66,377	140,263
Adjustments in respect of prior year acquisitions	4,311	(6,017)
Exchange differences	(290)	1,196
<b>Closing net book amount</b>	<b>1,015,002</b>	<b>944,604</b>
At 31 December		
Cost	1,026,054	955,656
Accumulated impairment	(11,052)	(11,052)
<b>Net book amount</b>	<b>1,015,002</b>	<b>944,604</b>

### (a) Impairment tests for goodwill

Goodwill is 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 2017 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 goodwill impairment testing, the recoverable amount is compared to the carrying amount of the assets of the Group, which aside from goodwill, also includes the fixed assets of the child care centres.

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

The value-in-use calculation is based on forecast EBITDA which is a function of 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 a 3% index annually;
- Centre occupancy expenses – based on current operating leases and increased by a 4% index annually; 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:

- Revenue growth of 6%;
- Pre-tax discount rate of 13%;

- Full head office costs allocation; and
- Forecast period of 5 years plus a terminal growth calculation with a growth rate of 0%.

Key assumptions have not changed from prior year.

### (c) Impairment charge

As a result of the value in use calculations described above it was determined that no impairment was required to be recognised.

The Group has completed a sensitivity analysis on its impairment model and no reasonably possible movement in the key assumptions would give rise to an impairment loss.

### Accounting Policy

Goodwill is not subject to amortisation and is tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use is calculated based on the discounted cash flows of the child care centres over the lease period including a terminal value calculation, which is assessed on a segment level.

### 3. Capital Structure & Financial Risk Management

#### Note 17: Financial Risk Management

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

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

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

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:

	Financial assets at fair value \$'000	Financial assets at amortised cost \$'000	Total \$'000
<b>2016</b>			
<b>Financial Assets</b>			
Cash and Cash equivalents	-	26,467	26,467
Trade and other receivables	-	21,711	21,711
Deposits on acquisitions	-	23,022	23,022
Derivative Financial Instruments	3,359	-	3,359
	<b>3,359</b>	<b>71,200</b>	<b>74,559</b>
<b>2015</b>			
<b>Financial Assets</b>			
Cash and Cash equivalents	-	193,840	193,840
Trade and other receivables	-	20,152	20,152
	-	<b>213,992</b>	<b>213,992</b>



	Derivatives used for Cash Flow Hedges \$'000	Derivatives used for Fair Value Hedges \$'000	Liabilities at amortised cost \$'000	Total \$'000
<b>2016</b>				
<b>Financial Liabilities</b>				
Trade and other payables	-	-	73,628	73,628
Borrowings	-	-	410,649	410,649
Derivative financial instrument	1,042	15,309	-	16,351
	<b>1,042</b>	<b>15,309</b>	<b>484,277</b>	<b>500,628</b>
<b>2015</b>				
<b>Financial Liabilities</b>				
Trade and other payables	-	-	63,571	63,571
Borrowings	-	-	515,161	515,161
Derivative financial instrument	1,184	-	-	1,184
	<b>1,184</b>	<b>-</b>	<b>578,732</b>	<b>579,916</b>

### (a) Foreign exchange risk

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

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

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

The Group also has current Singapore dollar denominated corporate notes outstanding with a total value of S\$270m. On 18 May 2016 the Group entered into a cross currency swap agreement to hedge against 1) changes to the AUD/SGD forward rate at inception to mitigate the foreign exchange exposure on the highly probable repayment of SGD denominated borrowings (Senior Unsecured Notes issued under G8's SGD 600million Multicurrency Issuance Program); and 2) the foreign exchange exposure on the coupon payments associated with the S\$270m corporate notes where the group pays 6.54% on AUD 269,892,043 and receives 5.50% on SGD \$270m.

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

	2016 SGD \$'000	2015 SGD \$'000
Cash and Cash equivalents	3,565	2,630
Trade receivables	319	236
Borrowings*	(262,977)	(410,814)
Trade payables	(240)	(118)
	<b>(259,333)</b>	<b>(408,066)</b>

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

The SGD to AUD exchange rate at 31 December 2016 was 0.9584.

## Amounts recognised in profit or loss and other comprehensive income

During the year, the following foreign-exchange related amounts were recognised in profit or loss and other comprehensive income:

	2016	2015
	\$'000	\$'000
<i>Amounts recognised in profit or loss</i>		
Exchange losses on foreign currency borrowing included in finance costs	(10,080)	11,968
Net revaluation of cross currency swap included in finance costs - SGD borrowings	15,309	-
Net revaluation of the AUD/SGD call option included in finance costs	2,819	-
<i>Net gains recognised in other comprehensive income</i>		
Translation of foreign operations	(455)	1,514
Net Revaluation of foreign exchange contract from prior period and recognition in income statement	(3,559)	3,559
Net revaluation of the cross currency swap - SGD borrowings	1,042	-

## Sensitivity

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

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

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

## 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 Limited'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 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 income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

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

### (iii) Group companies

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

1. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
2. income and expenses for each 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. Group policy is to maintain between 50% - 80% of its borrowings at fixed rate using interest rate swaps to achieve this when necessary. During 2016 and 2015, 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 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. The corporate notes denominated in Singapore dollars are all fixed rate notes.

Instruments used by the Group

At 2016 year end 76% of the borrowings outstanding at year end were fixed rate borrowings. The fixed interest rates range between 6.54% and 7.65% per annum (2015 – between 3.75% and 7.65% per annum) and the variable rates are 3.90% per annum above the 90 day bank bill rate which at the end of the reporting period was 1.78% per annum (2015 – 2.375% per annum). During the year the group entered into a cross currency swap. The swap transaction was to hedge the 5.5% on SGD amount for 6.54% on AUD amount. The Bankwest facility variable rate in the year ranged between 2% and 4%.

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

	31 December 2016			31 December 2015		
	Weighted avg interest rate	Balance	% of Total Loans	Weighted avg interest rate	Balance	% of Total Loans
	%	\$'000			\$'000	
Corporate Note	5.98%	50,000	12%	6.12%	50,000	9%
Bank facility	2.44%	40,000	12%	-	-	-
<b>Net exposure to cash flow interest rate risk</b>	-	90,000	12%	-	50,000	9%

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

Amounts recognised in profit or loss and other comprehensive income

During the year the cross currency swap was partially redesignated as a cash flow hedge, the following gains/ (losses) were recognised in profit or loss and other comprehensive income in relation to cross currency swap.

	2016	2015
	\$'000	\$'000
<i>Amounts recognised in other comprehensive income</i>		
Gains recognised as a result of cross currency swap designated as cash flow hedge	1,042	-

Group sensitivity

At 31 December 2016, 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 \$88,291 higher or \$88,291 lower respectively (net profit for 2015: \$87,740 higher or \$87,740 lower respectively).

### (c) Credit risk

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

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

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

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

	2016 \$'000	2015 \$'000
<b>Trade receivables</b>		
<b>Counterparties with external credit rating</b>		
AAA	13,620	12,405
<b>Counterparties without external credit rating</b>		
Receivables (current and non-current)	9,328	10,539
<b>Total receivables</b>	<b>22,948</b>	<b>22,944</b>
<b>Cash at bank and short term deposits</b>		
Counterparties with external credit rating - AA	26,467	193,840

#### (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.

Financing arrangements

Details of financing arrangements are disclosed in note 19.

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 24 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.

	Consolidated 2016 \$'000					Total contractual cash flows	Carrying Amount
	0 to 6 months	6 to 12 months	Between 1 and 2 years	Between 2 and 5 years	>5years		
<b>Non Derivative</b>							
Corporate Note	11,537	11,895	107,092	378,704	-	509,228	378,021
Bank facility	623	623	623	40,623	-	42,491	40,000
Deferred centre acquisition	-	4,073	75	225	825	5,198	4,752
Trade and other payables	73,628	-	-	-	-	73,628	73,628
<b>Derivatives</b>							
Net settled (FX hedge)	1,783	1,839	7,943	8,342	-	19,907	16,351

	Consolidated 2015 \$'000					Total contractual cash flows	Carrying Amount
	0 to 6 months	6 to 12 months	Between 1 and 2 years	Between 2 and 5 years	>5years		
<b>Non Derivative</b>							
Corporate Note	162,413	10,810	279,975	155,910	-	609,108	521,720
Deferred centre acquisition	400	3,180	71	195	521	4,367	4,367
Trade and other payables	63,571	-	-	-	-	63,571	63,571
<b>Derivatives</b>							
Net settled (FX hedge)	1,184	-	-	-	-	1,184	1,184

### (e) Fair value measurements

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

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- 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
- 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 2015 and 31 December 2016:

At 31 December 2015 \$000	Level 1	Level 2	Level 3	Total
<b>Liabilities</b>				
Derivatives used for hedging	-	1,184	-	1,184
Contingent consideration (refer note 15)	-	-	4,367	4,367
<b>At 31 December 2016 \$000</b>				
<b>Asset</b>				
Derivative financial asset	-	3,359	-	3,359
<b>Liabilities</b>				
Derivatives used for hedging	-	16,351	-	16,351
Contingent consideration (refer note 15)	-	-	4,752	4,752

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.

On 18 May 2016 the Group entered into a cross currency swap agreement to hedge against 1) changes to the AUD/SGD forward rate at inception to mitigate the foreign exchange exposure on the highly probable repayment of SGD denominated borrowings (Senior Unsecured Notes issued under G8's SGD 600million Multicurrency Issuance Program); and 2) the foreign exchange exposure on the coupon payments associated with the S\$270m corporate notes where the group pays 6.54% on AUD 269,892,043 and receives 5.50% on SGD \$270m.

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

In February 2016 the Group closed out an AUD/SGD put option that was purchased to hedge against the currency risk of the S\$260m unsecured May 2017 notes. The gain on this instrument has been reflected through the profit and loss.

On the 18<sup>th</sup> May 2016 purchased an AUD/SGD call option with a notional value of S\$270,000,000, strike price of \$1.175 and maturity date of 18 May 2019. This instrument is not designated as a hedge instrument and was purchased as an additional layer of counterparty security that ultimately eliminated collateral posting requirements. The movement in the value of this option is recognised through the income statement.

## Note 18: Current Assets - Cash and Cash Equivalents

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand	26,448	175,978
Deposits at call*	19	17,862
<b>Total Cash and Cash Equivalents</b>	<b>26,467</b>	<b>193,840</b>

\*The effective average interest rate for the deposits at call was 1.3% (2015: 2.33%). Included above is \$14,347 used as security against the Company's bank guarantee facility (2015: \$14,203).

### (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	
	2016	2015
	\$'000	\$'000
Balance as per above	26,467	193,840
Term Deposits held as security against bank guarantees and foreign exchange hedge	(14)	(14)
<b>Balance as per Statement of Cash Flows</b>	<b>26,453</b>	<b>193,826</b>

### 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.

## Note 19: Current and Non-Current Liabilities - Borrowings

	2016			2015		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
<b>Unsecured</b>						
Corporate Notes (a)	-	370,649	370,649	148,891	366,270	515,161
<b>Total Unsecured Borrowings</b>	-	<b>370,649</b>	<b>370,649</b>	<b>148,891</b>	<b>366,270</b>	<b>515,161</b>
<b>Secured</b>						
Bankwest Facility	-	40,000	40,000	-	-	-
<b>Total Secured Borrowings</b>	-	<b>40,000</b>	<b>40,000</b>	-	-	-
<b>Total Borrowings</b>	-	<b>410,649</b>	<b>410,649</b>	<b>148,891</b>	<b>366,270</b>	<b>515,161</b>

As at 31 December 2016 the Group had \$40m drawn from the \$50m Bankwest facility. The facility termination date is 31 December 2018.

### (a) Corporate Notes

G8 Education Limited has the following Corporate Notes outstanding at year end:

Issue Date	Face Value in Issue Currency \$000	Issue Currency	Repayment Date	Interest Rate %	Floating or Fixed
7 August 2013	70,000	AUD	7 August 2019	7.65%	Fixed
3 March 2014	50,000	AUD	3 March 2018	390bps + 90 day Bank Bill Rate	Variable
18 May 2016	258,021	SGD	18 May 2019	5.50%	Fixed

G8 Education Limited has complied with the financial covenants relating to the AUD and SGD Corporate Notes and Bankwest Facility during 2016 and 2015 reporting periods.

On 18 May 2016 the Group entered into an AUDSGD cross currency swap whereby the Group pays 6.54% on AUD \$269,892,043 and receives 5.50% on S\$270,000,000. The spot rate at inception was 0.9996. The objective of this transaction is to hedge the highly probable repayment of SGD denominated borrowings (Senior Unsecured Notes issued under G8's S\$600 million Multicurrency Issuance Program) by G8 Education against changes in the AUD/SGD forward rate from that at the inception of this hedging relationship. The swap has been designated as a fair value hedge of the highly probable repayment of S\$270,000,000 Series 003 5.50% unsecured notes relating to the



principal repayment of SGD denominated borrowings (senior unsecured notes under G8's S\$600,000,000 multi-currency issuance program) and as a cash flow hedge from 1 July 2016 for the coupon payments associated with the Series 003 notes. The movements of the foreign exchange on the fair value of the swap are recognised in finance costs offset by similar movements on the borrowings and the movement of the fair value of the swap associated with fixing the coupon payment has been recognised in equity.

Furthermore on the 18<sup>th</sup> May 2016 purchased an AUD/SGD call option with a notional value of S\$270,000,000, strike price of \$1.175 and maturity date of 18 May 2019. This instrument is not designated as a hedge instrument and was purchased as an additional layer of counterparty security that ultimately eliminated collateral posting requirements. The movement in the value of this option is recognised through the income statement. In February 2016 the Group closed out an AUD/SGD call option that was purchased to hedge against the currency risk of the S\$260m unsecured May 2017 notes. The gain on this instrument has been reflected through the profit and loss.

### (b) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on debt are set out in note 17(b).

### (c) Assets pledged as security

The facility is secured by:

- First ranking registered mortgages over all leasehold assets owned by the Group;
- An unlimited guarantee in favour of the Company from its subsidiaries; and
- A right of entry in relation to certain leased premises.

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

	Notes	Consolidated	
		2016 \$'000	2015 \$'000
<b>Current</b>			
<i>Floating charge</i>			
Cash and cash equivalents	18	26,467	193,840
Trade and other receivables	7	22,948	22,943
Other current assets	8	9,234	9,754
<b>Total current assets pledged as security</b>		<b>58,649</b>	<b>226,537</b>
<b>Non-current</b>			
<i>First mortgage</i>			
Buildings	9	4,298	4,450
<i>Floating charge</i>			
Vehicles, plant and equipment	9	50,547	36,920
<b>Total non-current assets pledged as security</b>		<b>54,845</b>	<b>41,370</b>
<b>Total assets pledged as security</b>		<b>113,494</b>	<b>267,907</b>

## (d) Financing arrangements

As at 31 December 2016 the following lines of credit were in place:

	Consolidated	
	2016	2015
	\$'000	\$'000
<b>Credit standby arrangements</b>		
Total facilities		
Credit cards	500	500
Used at balance date	(25)	(137)
<b>Unused at balance date</b>	<b>475</b>	<b>363</b>
<b>Bank loan facilities</b>		
Total facilities	50,000	50,000
Used at balance date	(40,000)	-
<b>Unused at balance date</b>	<b>10,000</b>	<b>50,000</b>
<b>Bank Guarantee facilities</b>		
Total Facilities	35,000	30,000
Used at balance date	(33,557)	(26,717)
<b>Unused at balance date</b>	<b>1,443</b>	<b>3,283</b>
<b>Corporate Notes</b>		
Total facilities	410,649	515,161
Used at balance date	(410,649)	(515,161)
<b>Unused at balance date</b>	<b>-</b>	<b>-</b>

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

## (e) Fair value

The carrying amounts and fair values of borrowings at balance dates are as reflected in the Balance Sheet. The SGD bond carrying amount is A\$258m and the fair value is A\$264.9m.

## Accounting Policy

### Measurement

Borrowings are initially recognised at fair value, net of transaction cost incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the 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 facility, are capitalised to the loan and expensed on a straight-line basis over the term of the facility.

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 profit or loss 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.

## Note 20: Derivative Financial Instruments

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Non-Current Asset</b>		
Foreign exchange option	3,359	-
<b>Total non-current derivative financial instrument asset</b>	<b>3,359</b>	<b>-</b>
<b>Current Liability</b>		
Interest rate swap	-	(1,184)
<b>Non-Current Liability</b>		
Cross currency swap contracts - cash flow hedges	1,042	-
Cross currency swap contracts - fair value hedge	15,309	-
<b>Total non-current derivative financial instrument liability</b>	<b>16,351</b>	<b>-</b>

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 17).

### 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 20. Movements in the hedging reserve in shareholders' equity are shown in note 22. 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 and offset with a similar gain or loss on the associated borrowings. There is no ineffectiveness in the year 2016.

#### 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 profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (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 in 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 profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

## Note 21: Contributed Equity

### (a) Share capital

	Consolidated		Consolidated	
	2016 Shares	2015 Shares	2016 \$'000	2015 \$'000
Ordinary shares fully paid	382,511,733	372,820,198	641,848	603,043

### (b) Movements in ordinary share capital

Details	Number of Shares '000	\$'000
<b>31 December 2014 Balance</b>	<b>353,692</b>	<b>548,374</b>
Share placement from script offer for Affinity Education Group Limited	2,535	8,402
Shares issued to Key Management Personnel	3,122	11,302
Shares held in escrow	(3,122)	(11,302)
Issuance of shares	3,288	12,889
Dividend reinvestment plan	10,183	33,500
Transaction costs of shares issued	-	(150)
Deferred tax credit recognised directly in equity	-	28
<b>31 December 2015 Balance</b>	<b>369,698</b>	<b>603,043</b>
<b>31 December 2015 Balance</b>	<b>369,698</b>	<b>603,043</b>
Dividend reinvestment plan	9,692	32,272
Issuance of shares	1,707	6,537
Transaction costs of shares issued	-	(22)
Deferred tax credit recognised directly in equity	-	18
<b>31 December 2016 Balance</b>	<b>381,097</b>	<b>641,848</b>

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

	Consolidated	
	2016 Shares '000	2015 Shares
Balance at the beginning of the financial year	3,122	-
Shares transferred under the plan	(1,707)	3,122
<b>Total outstanding at the end of the financial year</b>	<b>1,415</b>	<b>3,122</b>

### (d) Ordinary shares

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

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

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

### (e) Dividend reinvestment plan

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

## (f) Capital risk management

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

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

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

The gearing ratios at 31 December were as follows:

		<b>Consolidated</b>	
	<b>Notes</b>	<b>2016</b>	<b>2015</b>
		<b>\$'000</b>	<b>\$'000</b>
Borrowings	19	410,649	515,161
Trade and other payables	11	89,601	83,054
Less: cash and cash equivalents	18	(26,467)	(193,840)
Net debt		473,782	404,375
Total equity		625,878	602,785
<b>Total capital</b>		<b>1,099,661</b>	<b>1,007,160</b>
<b>Gearing ratio</b>		<b>43%</b>	<b>40%</b>

The Directors assess an appropriate level of gearing based on a leverage rate of less than 45%. Gearing ratio is calculated as net debt divided by total capital. Total capital is net debt plus total equity

## 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.

## Note 22: Reserves and Retained Earnings

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Movements</b>		
<b>Translation reserve</b>		
Opening balance	6,026	4,512
Currency translation differences arising during the year	(455)	1,514
<b>Closing Balance</b>	<b>5,571</b>	<b>6,026</b>
<b>Profits reserve</b>		
Opening balance	33,706	22,745
Transfer from retained earnings	87,994	98,852
Dividends	(90,819)	(87,891)
<b>Closing Balance</b>	<b>30,881</b>	<b>33,706</b>
<b>Share based payment reserve</b>		
Opening balance	344	-
Share based payment expense	(105)	344
<b>Closing Balance</b>	<b>239</b>	<b>344</b>
<b>Hedging reserve</b>		
Opening balance	3,559	-
Revaluation - gross	(4,601)	3,559
<b>Closing Balance</b>	<b>(1,042)</b>	<b>3,559</b>
<b>Total Reserves</b>	<b>35,649</b>	<b>43,635</b>

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Retained earnings movements</b>		
Opening balance	(43,893)	(33,622)
Profit for the year	80,265	88,581
Transfer to profits reserve	(87,994)	(98,852)
<b>Closing Balance</b>	<b>(51,622)</b>	<b>(43,893)</b>

### (a) Nature and purpose of reserves

#### (i) Share-based payments

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

#### (ii) Translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 17 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss 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 20. Amounts are reclassified to profit or loss when the associated hedge transaction affects profit or loss.

#### (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 \$90.8 million (2015: \$87.9 million) were distributed from the profits reserve during the year.

## Note 23: Dividends

### (a) Ordinary Shares

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

	2016 \$'000	2015 \$'000
Dividend for the quarter ended 31 March 2016 of 6.0 cents per share (2015: 6.0 cents per share) paid on 8 April 2016 (2015: Paid on 10 April 2015)	22,481	21,549
Dividend for the quarter ended 30 June 2016 of 6.0 cents per share (2015: 6.0 cents per share) paid on 8 July 2016 (2015: Paid on 7 July 2015)	22,616	21,903
Dividend for the quarter ended 30 September 2016 of 6.0 cents per share (2015: 6.0 cents per share) paid on 7 October 2016 (2015: Paid on 7 October 2015)	22,772	22,070
Dividend for the quarter ended 31 December 2016 of 6.0 cents per share (2015: 6.0 cents per share) paid on 6 January 2017 (2015: Paid 11 January 2016)	22,950	22,369
	<b>90,819</b>	<b>87,891</b>

	2016 \$'000	2015 \$'000
<b>Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 31 December were as follows:</b>		
Paid in cash - March, June, September dividend	41,497	40,355
Dividend payable in cash December	12,846	16,467
Dividend reinvestment plan	36,476	31,069
<b>Total dividend</b>	<b>90,819</b>	<b>87,891</b>

<b>Reconciliation to cash flow</b>		
Paid in cash - December dividend paid in January	16,467	12,889
Paid in cash - March, June, September dividend	41,497	40,355
<b>Total paid in cash</b>	<b>57,964</b>	<b>53,244</b>

### (b) Franked credits

The franked portions of the December 2016 quarterly dividend will be franked out of existing franking credits.

	Consolidated		Parent Entity	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2015: 30%)	11,622	14,868	11,622	14,868

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

- Franking credits that will arise from the payment of the amount of the provision for income tax;
  - Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
  - 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.

## 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 35(b).

Name of Entity	Country of incorporation	Class of Shares/Units	2016 %	2015 %
<b>Subsidiaries of Company</b>				
Grasshoppers Early Learning Centre Pty Ltd	Australia	Ordinary	52	52
Togalog Pty Ltd	Australia	Ordinary	100	100
RBWOL Holding Pty Ltd**	Australia	Ordinary	100	100
Ramsay Bourne Holdings Pty Ltd**	Australia	Ordinary	100	100
Bourne Learning Pty Ltd	Australia	Ordinary	100	100
Ramsay Bourne Acquisitions (No.1) Pty Ltd	Australia	Ordinary	100	100
Ramsay Bourne Acquisitions (No.2) Pty Ltd**	Australia	Ordinary	100	100
RBL No. 1 Pty Ltd	Australia	Ordinary	100	100
Ramsay Bourne Licences Pty Ltd	Australia	Ordinary	100	100
Sydney Cove Children's Centre Pty Ltd	Australia	Ordinary	100	100
Sydney Cove Children's Centre B Pty Ltd	Australia	Ordinary	100	100
Sydney Cove Children's Centre C Pty Ltd	Australia	Ordinary	100	100
Sydney Cove Property Holdings Pty Ltd	Australia	Ordinary	100	100
World Of Learning Pty Ltd**	Australia	Ordinary	100	100
World Of Learning Acquisitions (No.1) Pty Ltd	Australia	Ordinary	100	100
World Of Learning Acquisitions Pty Ltd	Australia	Ordinary	100	100
World Of Learning Licences Pty Ltd	Australia	Ordinary	100	100
G8 KP Pty Ltd**	Australia	Ordinary	100	100
Sterling Early Education Finance Pty Ltd	Australia	Ordinary	100	100
Sterling Early Education Holdings Pty Ltd**	Australia	Ordinary	100	100
Woodland Education Operations Pty Ltd	Australia	Ordinary	100	100
Kindy Kids Operations Pty Ltd	Australia	Ordinary	100	100
CG Operations Pty Ltd **	Australia	Ordinary	100	100
Kool Kids Operations Pty Ltd **	Australia	Ordinary	100	100
North Shore Childcare Pty Ltd**	Australia	Ordinary	100	100
Oorama 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
Janes 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 Day Care 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 Trust	Australia	Ordinary	100	100
Sydney Cove Children's Centre B Trust	Australia	Ordinary	100	100
Shemlex Investment Unit Trust **	Australia	Ordinary	100	100
Shemlex Investments Freehold Trust No 1**	Australia	Ordinary	100	100
Morley Perth Unit Trust	Australia	Ordinary	100	100
Kindy Kids Village Trust	Australia	Ordinary	100	100
Kindy Kids Long 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 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
Greenwood Prep 10 Pty Ltd	Australia	Ordinary	100	100
Greenwood Prep Holdings Pty Ltd**	Australia	Ordinary	100	100
The Trustee for Lane Cove CCC Unit Trust	Australia	Ordinary	100	-
Lane Cove CCC Pty Ltd	Australia	Ordinary	100	-
The Trustee for Waterloo CCC Unit Trust	Australia	Ordinary	100	-
Waterloo CCC Pty Ltd	Australia	Ordinary	100	-
The Trustee for GW Chatswood Unit Trust	Australia	Ordinary	100	-
GW Chatswood Pty Ltd	Australia	Ordinary	100	-
G8 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 @ KK Pte Ltd	Singapore	Ordinary	100	100
Cherie Hearts @ SK Pte Ltd	Singapore	Ordinary	100	100
Cherie Hearts @ Gombak Pte Ltd	Singapore	Ordinary	100	100
Bright Juniors @ YS Pte Ltd	Singapore	Ordinary	100	100
Bright Juniors @ TM Pte Ltd	Singapore	Ordinary	100	100
Bright Juniors @ PGL Pte Ltd	Singapore	Ordinary	100	100
Bright Juniors @ SC Pte Ltd	Singapore	Ordinary	100	100
Bright Juniors Pte Ltd	Singapore	Ordinary	100	100
Our Juniors Schoolhouse Pte Ltd	Singapore	Ordinary	100	100
<b>Subsidiaries of Togalog Pty Ltd</b>				
Grasshoppers Early Learning Centre Pty Ltd	Australia	Ordinary	48	48

\* 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 Class Order 98/1418 issued by the Australian Securities and Investment Commission. For further information please refer to note 26.

## Note 25: Parent Entity Disclosures

As at, and throughout the financial year ended 31 December 2016 the parent entity of the Group was G8 Education Limited.

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Result of parent entity</b>		
Profit for the year after tax	79,811	90,519
Other comprehensive income	(5,056)	3,559
<b>Total comprehensive income for the year</b>	<b>74,755</b>	<b>94,078</b>
<b>Financial position of parent entity at year end</b>		
Current assets	36,542	233,993
Non-current assets	1,080,209	994,220
<b>Total assets</b>	<b>1,116,751</b>	<b>1,228,213</b>
Current liabilities	125,239	251,487
Non-current liabilities	376,090	371,051
<b>Total liabilities</b>	<b>501,329</b>	<b>622,538</b>
<b>Total equity of parent entity comprising of:</b>		
Contributed equity	641,848	603,043
Reserves	30,079	31,445
Accumulated losses	(56,505)	(28,813)
<b>Total equity</b>	<b>615,422</b>	<b>605,675</b>

### 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 Limited, 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 Limited.

#### (ii) Tax consolidation legislation

G8 Education Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, G8 Education Limited and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, G8 Education Limited also recognises the 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.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate G8 Education Limited for any current tax payable assumed and are compensated by G8 Education Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to G8 Education Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement is 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.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

## Note 26: Deed of Cross Guarantee

All Australia subsidiaries listed in Note 24 are considered to be in the closed group and have been relieved from the requirement to prepare a Financial Report And Directors' Report Under Class Order 98/1418 (As Amended) issued by the Australian Securities and Investments Commission.

Below is a consolidated statement of comprehensive income for the year ended 31 December 2016 of the closed group:

### (a) Consolidated statements of comprehensive income

	2016 \$'000	2015 \$'000
<b>Revenue from continuing operations</b>	760,048	631,178
Other income	1,459	6,214
Profit on sale of financial assets	-	10,490
<b>Expenses</b>		
Employee benefits expense	(423,780)	(345,140)
Occupancy	(85,639)	(68,493)
Direct costs of providing services	(57,603)	(47,366)
Depreciation	(11,333)	(10,750)
Other expenses	(25,092)	(18,368)
Finance costs	(45,750)	(26,677)
<b>Total expenses</b>	<b>(649,197)</b>	<b>(516,794)</b>
Profit before income tax	112,310	131,088
Income tax (expense)	(34,581)	(34,064)
<b>Profit for the year</b>	<b>77,729</b>	<b>97,024</b>
<b>Recycle to income statement for amount reversed in current period</b>	<b>(3,559)</b>	<b>-</b>
Effective portion of changes in fair value of cash flow hedges	(1,042)	3,559
<b>Total Comprehensive income for the year</b>	<b>73,128</b>	<b>100,583</b>

## (b) Balance Sheets

Set out below is a consolidated balance sheet as at 31 December of the Closed Group.

	2016 \$'000	2015 \$'000
<b>Current assets</b>		
Cash and cash equivalents	23,050	188,898
Trade and other receivables	22,831	21,105
Other current assets	30,453	28,334
Current tax asset	3,669	-
<b>Total current assets</b>	<b>80,003</b>	<b>238,337</b>
<b>Non-current assets</b>		
Investments in extended Group	139	144,602
Property, plant and equipment	53,909	33,683
Deferred tax assets	13,747	21,678
Intangible assets	984,696	805,302
Other non-current assets	23,006	-
Derivative Financial Instruments	3,359	-
<b>Total non-current assets</b>	<b>1,078,856</b>	<b>1,005,265</b>
<b>Total assets</b>	<b>1,158,859</b>	<b>1,243,602</b>
<b>Current liabilities</b>		
Trade and other payables	82,651	82,257
Other creditors	3,999	-
Borrowings	-	148,891
Employee Entitlements	25,826	19,591
Derivative liability	-	1,184
Current tax liabilities	-	4,297
<b>Total current liabilities</b>	<b>112,476</b>	<b>256,220</b>
<b>Non-current liabilities</b>		
Borrowings	410,649	366,270
Other payables	754	712
Employee Entitlements	4,783	4069
Provisions	16,351	-
<b>Total non-current liabilities</b>	<b>432,537</b>	<b>371,051</b>
<b>Total liabilities</b>	<b>545,013</b>	<b>627,271</b>
<b>Net assets</b>	<b>613,846</b>	<b>616,331</b>
<b>Equity</b>		
Contributed equity	641,848	603,043
Reserves	29,714	36,274
Accumulated losses	(57,716)	(22,986)
<b>Total equity</b>	<b>613,846</b>	<b>616,331</b>

## 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.

#### (b) Lease commitments: Group as lessee

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

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities:		
<b>Payable:</b>		
Within one year	86,406	81,191
Later than one year but no later than five years	242,078	233,038
Later than five years	164,788	172,484
	<b>493,272</b>	<b>486,713</b>
<b>Representing:</b>		
Non-cancellable operating leases	493,272	486,713

##### (ii) Finance Leases

The Group had no finance leases during 2016 or 2015.

#### Accounting Policy

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease year so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

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

## Note 28: Contingencies

### (a) Contingent liabilities

The Group had no contingent liabilities as at 31 December 2016 (2015: Nil).

## Note 29: Events occurring after the balance sheet date

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

- Gary Carroll was appointed Managing Director and Chief Executive Officer on 1 January 2017.
- Sarah Zeljko was appointed Company Secretary on 16 January 2017.
- Sharyn Williams was appointed Chief Financial Officer on 6 February 2017.
- To support our strategy, in February 2017 the Group announced raising approximately \$212 million from a share placement to a subsidiary of China First Capital Group, a Hong Kong-listed investment company. The funding raised from the issue will enable the Group to repay a portion of its A\$ bond and bank debt facilities as well as assisting in funding the acquisition of additional child care centres.
- In accordance with the terms of the executive share plan a third of the shares issued will be cancelled by the Group as the underlying EPS growth did not exceed 15% as required by the terms of the plan. The impact of this has been accounted for in accordance with the requirements of AASB 2 in the current period. The Group plans to discontinue the Executive Share Plan, which was in place for the full year in 2016 and will implement the new LTI scheme subject to shareholder approval as outlined above.

## 6. Other

### Note 30: Employee Entitlements

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	25,956	22,824
	<b>25,956</b>	<b>22,824</b>

#### (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.

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Leave obligations expected to be settled after 12 months	2,575	2,231
	<b>2,575</b>	<b>2,231</b>

#### 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 Limited, are accounted for as equity-settled share-based payment transactions when the rights over the shares are granted by G8.



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 profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

## Note 31: Key Management Personnel Disclosures

### (a) Directors

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

#### (i) Chairperson –Independent Non-Executive

- M Johnson (appointed 1 January 2016)

#### (ii) Executive Directors

- C Scott

#### (iii) Non-Executive Directors

- B Bailison
- S Forrester
- D Foster (appointed 1 February 2016)
- M Reynolds

### (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

- J Roberts - Chief Executive Officer
- G Carroll - Chief Financial Officer (appointed 25 July 2016)
- T King - General Manager Operations
- A Perriam - Executive Officer
- C Sacre - Chief Financial Officer & Company Secretary until resignation on 27 May 2016

### (c) Key Management Personnel compensation

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Short term employee benefits	3,419,408	2,139,163
Post-employment benefits	155,683	111,094
Share based payments*	(105,284)	343,690
Dividend payments on escrow shares	290,998	374,664
Termination payments	14,870	-
	<b>3,775,676</b>	<b>2,968,611</b>

\*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 16 to 32.

## (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 32(a) for details of options issued to Key Management Personnel.

(ii) Option holdings

Refer to note 32(a) 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 Limited and other Key Management Personnel of the Group, including their associates, are set out below. There were no shares issued during the reporting year as compensation.

	Balance at the start of the year	Shares to be cancelled under limited recourse loans disclosed as share options	Shares cancelled under limited recourse loans disclosed as share options	Other changes during the year	Balance at the end of the year
<b>2016</b>					
<b>Directors of G8 Education Limited</b>					
Ordinary Shares					
M Johnson	-	-	0	25,000	25,000
C Scott	1,000,000	(333,333)	(333,333)	-	333,333
B Bailison	-	-	-	-	-
M Reynolds	24,195	-	-	-	24,195
S Forrester	5,423	-	-	10,000	15,423
D Foster	-	-	-	14,587	14,587
<b>Other Key Management Personnel of the Group</b>					
Ordinary Shares					
J Roberts	1,000,000	(333,333)	(333,333)	-	333,333
G Carroll	-	-	-	-	-
T King	-	-	-	631,329	631,329
A Perriam	122,198	(40,733)	(40,733)	-	40,733
C Sacre*	1,848,000	-	(1,000,000)	(848,000)	-

\* C Sacre resigned as Chief Financial Officer on 27 May 2016

	Balance at the start of the year	Shares issued under limited recourse loans disclosed as share options	Other changes during the year	Balance at the end of the year
<b>2015</b>				
<b>Directors of G8 Education Limited</b>				
Ordinary Shares				
C Scott	-	1,000,000	-	1,000,000
B Bailison	-	-	-	-
M Reynolds	14,695	-	9,500	24,195
S Forrester	-	-	5,423	5,423
J Hutson*	1,800,000	-	153,778	1,953,778
A Kemp*	103,043	-	120,660	223,703
<b>Other Key Management Personnel of the Group</b>				
Ordinary Shares				
J Roberts	-	1,000,000	-	1,000,000
T King	-	-	-	-
A Perriam	-	122,198	-	122,198
C Sacre*	600,000	1,000,000	248,000	1,848,000

\* C Sacre resigned as Chief Financial Officer on 27 May 2016

\*J Hutson resigned 15 October 2015

\*A Kemp resigned 17 March 2015

### (e) Loans to Key Management Personnel

Details of loans made to directors of G8 Education Limited and other Key Management Personnel of the Group, including their associates, are set out below.

(i) Aggregates for Key Management Personnel

Group	Balance at the start of the year	Shares issued under limited recourse loans disclosed as share options	Other changes during the year	Balance at the end of the year
	\$	\$	\$	\$
2016	15,610,990	-	(12,073,993)	3,536,997
2015	-	-	-	15,610,990

(ii) Individuals with loans above \$100,000 during the financial year

Refer to note 31(f)

<b>2016 Name</b>	<b>Balance at the start of the year</b>	<b>Limited recourse loans cancelled due to vesting condition not being met</b>	<b>Limited recourse loans to be cancelled due to vesting condition not being met</b>	<b>Forfeiture due to resignation</b>	<b>Balance at the end of the year</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
C Scott	5,000,000	(1,666,667)	(1,666,667)	-	1,666,667
J Roberts	5,000,000	(1,666,667)	(1,666,667)	-	1,666,667
C Sacre	5,000,000	(1,666,667)	-	(3,333,333)	-
A Perriam	610,990	(203,663)	(203,663)	-	203,663

The Executive Share Plan includes an Employee Loan Scheme that permits G8 to grant financial assistance to employees by way of interest free limited recourse loans to enable them to purchase shares which are held in escrow until the loan is repaid. The shares are not able to be traded whilst the loan remains outstanding.

The Accounting Standards require that shares issued under employee incentive share plans in conjunction with limited-recourse loans are to be accounted for as options. As a result, the amounts receivable from employees in relation to these loans have not been recognised in the financial statements until repayment or part repayment of the loans occur. The balance of limited recourse loans outstanding at 31 December 2016 is \$3,536,997.

During the year the Group cancelled 1/3 of the KMP shares as the condition of 40% EPS growth from 2014 to 2015 was not met. Due to vesting conditions not being met in 2016, 1/3 of the shares in escrow were not issued. In February 2017 the Group will discontinue the Executive Share Plan.

Refer to note 32 for the share based payments disclosure to Key Management Personnel.

<b>2015 Name</b>	<b>Balance at the start of the year</b>	<b>Limited recourse loans cancelled due to vesting condition not being met</b>	<b>Interest not charged</b>	<b>Balance at the end of the year</b>	<b>Highest Indebtedness during the year</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
C Scott	-	-	-	5,000,000	5,000,000
J Roberts	-	-	-	5,000,000	5,000,000
C Sacre	-	-	-	5,000,000	5,000,000
A Perriam	-	-	-	610,990	610,990

## (f) Other transactions with Key Management Personnel

Details of material transactions and their impact on the financial statements exclusive of GST at year end that Key Management Personnel and their related entities had with the Group during the year are as follows:

Mr C Scott (Managing Director) who had the following transactions:		2016	2015
		\$	\$
a) Interest charged on share loan agreement	Revenue interest income	-	-
b) Loan granted to nominee of Mr C Scott to purchase 1,000,000 shares G8 Education Limited for a total amount of \$5,000,000	Employment Expenses	-	105,284
Mr C Sacre (Company Secretary and Chief Financial Officer) who had the following transactions*:		2016	2015
		\$	\$
a) Interest charged on share loan agreement	Revenue interest income	-	-
b) Loan granted to nominee of Mr C P Sacre to purchase 1,000,000 shares G8 Education Limited for a total amount of \$5,000,000	Employment expenses	(105,284)	105,284
c) Share based payment expense for the difference in market price of the shares issued compared to loan value	Employment expenses and equity	-	14,973
Mr J Roberts (Chief Executive Officer) who had the following transactions:		2016	2015
		\$	\$
a) Loan granted to nominee of Mr J Roberts to purchase 1,000,000 shares G8 Education Limited for a total amount of \$5,000,000	Employment Expenses	-	105,284
Ms A Perriam (Junior Executive) who had the following transactions:		2016	2015
		\$	\$
a) Loan granted to nominee of Ms A Perriam to purchase 122,198 shares G8 Education Limited for a total amount of \$610,990	Employment Expenses	-	12,865

\*Chris Sacre resigned on 27 May 2016 resulting in a write back of Share Based Payments expense.

On 21 May 2015 the Company obtained shareholders' approval to offer:

- The nominee of Chris Scott, Managing Director the right to acquire 1,000,000 Shares at \$5.00 per Share with a total value of \$5,000,000;
- The nominee of Jason Roberts, Chief Executive Officer the right to acquire 1,000,000 Shares at \$5.00 per Share with a total value of \$5,000,000;
- The nominee of Chris Sacre, Chief Financial Officer the right to acquire 1,000,000 Shares at \$5.00 per Share with a total value of \$5,000,000;
- The nominee of Ann Perriam, Junior Executive, the right to acquire 122,198 Shares at \$5.00 per Share with a total value of \$610,990.

The Company has granted a limited recourse, interest free loan to each of the nominees of the above members of the Company's senior management team to subscribe for the Shares.

The Shares have been issued to the nominees of the Company's senior management team to provide further incentive to perform and to secure the ongoing commitment of each of them to the continued growth of the Company. The shares were issued on 16 June 2015 (refer to note 21).

**(g) The aggregate value of transactions with Key Management Personnel:**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b>		
Interest income	-	-
<b>Expenses</b>		
Employment expense	(105,284)	343,690

## Note 32: Share-based payments

Details of options over ordinary shares in G8 Education Limited provided as an incentive to Key Management Personnel of the Group are set out below. The value of options at grant date is set out below. When exercisable, each option is convertible into one ordinary share of G8 Education Limited.

### (a) Fair value of options granted

#### Executive Share Plan “the Plan”

In accordance with the terms and conditions of the Plan approved by shareholders on 21 May 2015, selected KMP are granted the right to acquire shares at a nominated exercise price subject to agreed service and performance criteria (i.e. vesting conditions).

The Plan is an equity plan where shares are acquired up front through the provision of a limited recourse loan from the Company, provided for the sole purpose of acquiring shares in the Company. It operates much like a traditional option plan, as the outstanding loan balance is effectively the ‘exercise price’ that must be paid before any value can be realised.

The following is a summary of the key terms and conditions of the Plan:

- The loan is repayable on termination date (3 years from approval) or earlier if there is a default in which case the shares are no longer held in escrow.
- No interest is payable on the loan.
- The shares are held in escrow as security for the outstanding loan.
- Limited recourse – if the KMP fails to repay the outstanding loan balance in accordance with the plan, they are under no obligation to repay the full amount of the outstanding loan balance and the Group must accept the net proceeds of the sale or buy-back of the shares in escrow in full satisfaction of the outstanding loan balance.
- Borrower is not able to sell, transfer or dispose of shares in escrow. However, the Borrower receives the benefits associated with the shares such as dividends and voting rights during the escrow period.
- The shares rank equally with other ordinary shares on issue with respect to dividends, distribution or return of capital and other rights.
- If borrower leaves the employment of G8 then all secured shares are transferred to a party nominated by G8 and the money owed reduced by number of shares transferred multiplied by \$5 per share – exception is where the borrower is unfit for work.
- Shares are released to borrower in tranches – if conditions are not met then the shares are transferred or cancelled to a party nominated by G8.
  - 1 year – 1/3 shares if EPS @ 31/12/15 is 40% more than EPS at 31/12/14
  - 2 years – 1/3 shares if EPS @ 31/12/16 is 15% above EPS at 31/12/15.
  - 3 years – 1/3 shares if EPS @ 31/12/17 is 15% above EPS at 31/12/16.

During 2016 1/3 of the shares were cancelled due to conditions of performance criteria not being met. Due to the vesting conditions not being met in 2016 shares 1/3 of the shares held in escrow were not released. The Group plans to discontinue the Executive Share Plan, which was in place for the full year in 2016 and will implement the new LTI scheme subject to shareholder approval.

The table below shows the transactions relating to the plan during the year:

Name of Key Management Personnel	Plan Shares	Loan Amount	Share-based payment
Christopher Scott	333,333	1,666,667	-
Jason Roberts	333,333	1,666,667	-
Ann Perriam	40,733	203,663	-
Chris Sacre	-	-	(105,284)

During 2016 the vesting condition was not met resulting in a NIL share based payment for C Scott, J Roberts and A Perriam. C Sacre resigned resulting in a credit to reverse prior period share based payment expense.

Under AASB 2 *Share-based Payments*, the Plan gives rise to a share-based payment expense which is measured by reference to the fair value of the Plan Shares as at the date on which the Share Plan Resolutions were passed. As the Plan Shares were acquired by way of limited recourse loans, the fair value of the Plan Shares was measured using an option pricing model in accordance with AASB 2. The fair value of each share issued under the share loan plan at the date of shareholder approval was \$0.515. The company has recognised an after tax, non-cash share-based payment of (\$105,284) during the financial year with a corresponding credit to Shareholders' Equity in the form of a Share Option Reserve.

The treatment of the Plan Shares under applicable Accounting Standards as options requires that the value of the loans and issue price of the shares are not recorded as Loans Receivables or Share Capital of the Group until repayment or part repayment of the loans occurs. The Plan Shares were entitled to dividends of \$441,996 from the dividends paid on 8 April 2016, 8 July 2016, 7 October 2016 and 6 January 2017.

### Valuation of instruments issued

Value of the financial Benefit

The financial benefit has been valued for accounting purposes by the Directors using the Black-Scholes modes (and for comparison purposes, a single step binomial model) to determine the fair value of the financial benefit on the basis that taken as a whole, the arrangements are similar to an option.

The option component has been valued using the Black-Scholes Model and the dividends separately valued using a dividend discount model. The value of the interest free component of the loan has been included in the option value.

The Directors adopted the following assumptions:

- The market price of shares of \$3.64 (being the volume weighted average closing price for the month ended 2 April 2015);
- The risk free interest rate applicable to three year Commonwealth Bonds of 1.80% (being the monthly average for the month ended 7 April 2015);
- A dividend payment rate of 24 cents per share per annum (paid as to 6 cents per share for each of the March, June, September and December quarters);
- Volatility of the share price over the expected life of the instrument of 32.809% (being the volatility for the preceding 3 years as a proxy for expected future volatility over the life of the shares);
- Volatility of earnings per share (EPS) growth for the years ending 31 December 2016 and 2017 of 59.33% (being the volatility for the years 2008 – 2014);
- Average assumed EPS growth for the years ending 31 December 2016 and 2017 of 16.56% (being the average EPS growth for the years 2008 – 2014); and
- EPS exhibits similar behavior to share price movements. In other words, EPS follows a lognormal distribution and EPS growth follows a normal distribution.

Valuation inputs



The valuation methodology is a function of the relationship between a number of valuations, including the share price, the strike price, and the time of vesting and the volatility of the share price.

The application of the methodology therefore requires a number of inputs, some of which must be assumed. The key inputs used in the valuation methodology are summarised below:

- Share price: the volume weighted average share price for the month to 2 April has been adopted;
- Issue date: the date of the AGM has been adopted as the effective date;
- Time to expiry: The tranches expire on 31 December 2015, 31 December 2016 and 31 December 2017 respectively, if the vesting conditions have not been met for that period;
- Strike price: \$5.00;
- Risk free rate of government bonds with the same maturity as the Shares: the average for the previous month on 3 year Australian government bonds has been adopted;
- Volatility of share price: this has been calculated for the preceding three years as a proxy for expected future volatility over the life of the Shares.

The valuation methodology also took into consideration:

- That the shares are to be issued at an effective exercise price of \$5.00 which is a premium to the current volume weighted average of \$3.64 for the last month. Accordingly, no financial benefit will accrue to the recipient upon issue of the shares as the shares are secured by a limited recourse loan and restricted pending performance targets being met.
- The EPS growth hurdle which is required to be met prior to each tranche of the shares vesting which requires assumptions as to the probability that the performance targets will be met; in respect of the performance targets for 31 December 2015, the probability of meeting the target was assumed to be 60%, for 31 December 2016, and 31 December 2017, the estimate a probability of the EPS growth target being met was assumed to be 51.05%. The basis for these assumptions is that EPS growth follows a normal distribution and in other words, EPS follows a lognormal distribution. This method is a proxy which is consistent with various share and option pricing models on share price movements. The Black-Scholes value is then adjusted to arrive at the expected present value of the option component.

Movement in options / share is subject to limited recourse loan

	Number of Shares*	Loan Balance (\$)
Balance at the beginning of the financial year	3,122,198	15,610,990
Granted during the year	-	-
Forfeited during the year	(1,707,399)	(8,536,997)
Exercised during the year	-	-
Balance at the end of the financial year	1,414,799	7,073,993

\* Shares have been issued and are subject to payment of loan

In February 2017 the Group plans to discontinue the Executive Share Plan this will result in a NIL balances of share on issue to KMP.

### (b) 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	
	2016	2015
	\$'000	\$'000
Share-based payment expense on shares issued to KMP	(105)	344
	<b>(105)</b>	<b>344</b>

## Note 33: Remuneration of Auditors

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
<b>1. Audit services</b>	<b>\$</b>	<b>\$</b>
Ernst & Young		
Audit and review of financial reports – half year	75,000	-
Audit and review of financial reports – year end	140,000	-
HLB Mann Judd		
Audit and review of financial reports – half year	-	75,000
Audit and review of financial reports – year end	-	140,000
<b>2. Non-audit service</b>		
Ernst & Young - accounting advice	20,000	-
<b>Total Remuneration for audit services</b>	<b>235,000</b>	<b>215,000</b>

## Note 34: Related Party Transactions

### (a) Parent entity

The parent entity within the Group is G8 Education Limited.

### (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 31.

### (d) Outstanding balance arising from transactions with related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current payable (purchase of goods and services)</b>		
Key Management Personnel	-	-

No allowance for doubtful debts was raised in relation to any outstanding balances, and no expenses were recognised in respect of bad or doubtful debts due from related parties. All transactions with related parties during the year were made on normal commercial terms and conditions. Outstanding balances were secured and are repayable in cash.

## Note 35: 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 Limited 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 20 February 2017.

#### Compliance with IFRS

Compliance with AASB ensures that the financial report of G8 Education Limited 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 Limited (“Company” or “parent entity”) as at 31 December 2016 and the results of all subsidiaries for the year then ended.

G8 Education Limited 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.

## (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 \$80m for the year ended 31 December 2016 and as at that date, current liabilities exceed current assets by \$53m (2015 \$33.8m). Management expect the working capital shortfall will be met out of operating cash flows or from 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) New accounting standards and interpretations for application in future periods

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<b>PRONOUNCEMENTS</b>	<b>AASB 16 Leases</b>
<b>NATURE OF THE CHANGE IN ACCOUNTING POLICY</b>	<p>IFRS 16 will cause the majority of leases of an entity to be brought onto the Balance Sheet. There are limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet.</p> <p>The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments.</p> <p>A corresponding right to use asset will be recognised which will be amortised over the term of the lease.</p> <p>Rent expense will no longer be shown, the profit and loss impact of the leases will be through amortisation and interest charges.</p>
<b>EFFECTIVE DATE</b>	Annual reporting period beginning on or after 1 January 2019.
<b>EXPECTED IMPACT ON THE FINANCIAL STATEMENTS</b>	The Group has made a high level assessment of the standard on the Group's financial statement but has not completed a detailed review of the impact. It is anticipated that the Group's interest and amortisation expense will increase and rental expense will decrease.

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<b>PRONOUNCEMENTS</b>	<b>AASB 9 Financial Instruments.</b>
	<p>AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2009).</p> <p>AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transitional Disclosures.</p> <p>AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments.</p> <p>AASB 2014-1 Amendments to Australian Accounting Standards.</p>
<b>NATURE OF THE CHANGE IN ACCOUNTING POLICY</b>	<p>Significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value.</p> <p>The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value.</p> <p>Amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit and loss. Changes in fair value attributable to changes in the entity's own credit risk are presented in other comprehensive income.</p> <p>Chapter 6 Hedge Accounting supersedes the general hedge accounting requirements in AASB 139 Financial Instruments: Recognition and Measurement, which many consider to be too rules-based and arbitrary. Chapter 6 requirements include a new approach to hedge accounting that is intended to more closely align hedge accounting with risk management activities undertaken by entities when hedging financial and non-financial risks.</p> <p>Some of the key changes from AASB 139 are as follows:</p> <ul style="list-style-type: none"><li>· to allow hedge accounting of risk components of non-financial items that are identifiable and measurable (many of which were prohibited from being designated as hedged items under AASB 139);</li></ul>

- changes in the accounting for the time value of options, the forward element of a forward contract and foreign-currency basis spreads designated as hedging instruments; and
  - modification of the requirements for effectiveness testing (including removal of the 'bright-line' effectiveness test that offset for hedging must be in the range 80-125%). Revised disclosures about an entity's hedge accounting have also been added to AASB 7 Financial Instruments: Disclosures.
- Impairment of assets is now based on expected losses in AASB 9 which requires entities to measure:
- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
  - full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

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<b>EFFECTIVE DATE</b>	Annual reporting periods beginning on or after 1 January 2018.
<b>EXPECTED IMPACT ON THE FINANCIAL STATEMENTS</b>	The Group has not yet assessed how its own hedging arrangement would be affected by the new rules, and it has not yet decided whether to early adopt AASB 9. In order to apply the new hedging rules, the Group would have to adopt AASB 9 and the consequential amendments to AASB 7 and AASB 139 in their entirety.

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**PRONOUNCEMENTS**    **AASB 15 Revenue from contracts with customers**

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<b>NATURE OF THE CHANGE IN ACCOUNTING POLICY</b>	<p>AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.</p> <p>Accounting policy changes will arise in timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element.</p> <p>AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.</p>
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<b>EFFECTIVE DATE</b>	Annual reporting periods beginning on or after 1 January 2018
<b>EXPECTED IMPACT ON THE FINANCIAL STATEMENTS</b>	The Group has not yet assessed what impact, if any, this standard will have on the Group's financial statements

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## Directors' Declaration

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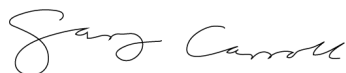
In the Directors' opinion:

- (a) the financial statements and notes set out on pages 37 to 102 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 2016 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 26 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 35(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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



**Gary Carroll**  
**Director**  
**20 February 2017**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders 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), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

In our opinion:

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

- (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its consolidated financial performance for the year ended on that date; and
- (ii) 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 *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia; and we have 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 statements. 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.

### 1. Impairment Assessment of Goodwill

#### Why significant

The Group is required under Australian Accounting Standards - AASB 136 'Impairment of assets' to perform an annual impairment test of the carrying value of goodwill.

The Group comprises one operating segment and one cash generating unit. The carrying value is supported by a value in use cash flow forecast. The cash flow forecasts depend upon assumptions about future operating and financial performance. These include judgements and estimates over the expectation of future revenues, anticipated EBITDA (which includes assessment as to the costs incurred), growth rates expected for G8 and the discount rate applied.

The Group's disclosures are included in note 16 to the financial statements, which includes the key assumptions applied by the Group.

#### How our audit addressed the key audit matter

We examined the forecast cash flows which underpin the Group's impairment model and tested the basis of preparing those forecasts taking into account historical evidence supporting underlying assumptions.

Future cash flow assumptions were evaluated through comparison with current trading performance, seeking corroborative evidence and enquiry with the Group in respect of key growth and trading assumptions.

We evaluated the Group's identification of the CGU and tested the mathematical accuracy of the impairment model. We performed sensitivity analysis over the model including in respect of growth rates and discount rates.

We assessed other key assumptions including the discount rate and long term growth rate with involvement from EY valuation specialists.

We considered the adequacy of the Intangible Assets disclosure in note 16 to the financial statements.

## 2. Acquisition Accounting

### Why significant

The Group acquired a number of childcare centres during 2016. Acquisition accounting requires judgment in identifying and assessing the fair value of the assets and liabilities acquired including contingent consideration payable to the vendors. Contingent consideration is determined based on estimates and assumptions about the future performance of the acquired business. Given the level of judgment in estimating the fair value as well as the contingent consideration that may be paid by G8, we consider this to be a significant audit risk.

Refer to note 15 to the financial statements for disclosure relating to acquisition accounting.

### How our audit addressed the key audit matter

In obtaining sufficient audit evidence, we:

- ▶ Assessed the acquisition accounting entries presented by the Group;
- ▶ Evaluated the methodology applied to identify and value the assets and liabilities (including contingent consideration);
- ▶ Agreed key items to underlying data including contracts and settlement statements;
- ▶ Assessed the terms and conditions of the sale agreement;
- ▶ 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 allocation of goodwill to the Cash Generating Unit.

### 3. Revenue Recognition

#### Why significant

Revenue is recognised by the Group when the underlying service has occurred (i.e. the provision of childcare services). 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. Due to the significant volume and balance of revenue we consider it a key audit matter.

Refer to note 2 to the financial statements for disclosure relating to revenues.

#### How our audit addressed the key audit matter

Our audit evaluated revenue recognised in accordance with Australian Accounting Standards - AASB 118 'Revenue'. To do this, we:

- ▶ Assessed the Group's design and operating effectiveness of key controls over the recognition of revenue;
- ▶ Performed substantive analytical procedures specifically over cut-off at year end;
- ▶ Tested revenue transactions to assess whether revenue was recognised in the appropriate period and that the transactions reconciled to the underlying rates charged;
- ▶ Assessed the completeness of the deferred revenue balance;
- ▶ Tested reconciliations relating to revenue recognised and agreed this to support including receipts of the Child Care Benefit and Child Care Rebate payments;
- ▶ Assessed journal entries for large or unusual entries relating to revenue; and
- ▶ Assessed the adequacy of the Group's disclosures in respect of the accounting policies on revenue recognition.

#### 4. Foreign Currency Hedge Transactions

##### Why significant

The Group enters into financial instruments to hedge both the interest rate and foreign currency risk in its portfolio of fixed rate debt. For accounting purposes the Group applies both cash flow and fair value hedge accounting. In order to apply hedge accounting, the Group is required to comply with a number of requirements under Australian Accounting Standards, including:

- ▶ Formally documenting the hedge relationship;
- ▶ Performing prospective and retrospective (quantitative) ineffectiveness testing; and
- ▶ Recording any resulting effectiveness in the consolidated statement of comprehensive income.

Given the technical requirements that are applicable to the application of hedge accounting and that incorrect application of these requirements can lead to a material effect on the consolidated statement of comprehensive income, we determined this to be a significant item for our audit.

Refer to note 20 to the financial statements for disclosure relating to foreign currency hedge transactions.

##### How our audit addressed the key audit matter

We tested, on a sample basis, whether the hedge documentation met the requirements of Australian Accounting Standards to assess whether the fixed rate debt instrument, interest rate and foreign currency hedge instruments were eligible for hedge accounting.

Furthermore, we considered the prospective and retrospective effectiveness testing to assess whether the hedge relationships were effective. We checked the calculation of the hedge effectiveness with involvement from management's treasury expert.

We reconciled the outcome of the retrospective effectiveness testing to the financial statements, where applicable.

We considered the completeness and accuracy of the disclosures relating to derivative financial instruments included in the financial statements.

## **Information Other than the Financial Statements and Auditor's Report**

The Directors are responsible for the other information. The other information comprises the information in the Group's Annual Report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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 upon 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.

## **Directors' Responsibilities 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 related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or 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 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.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- ▶ Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

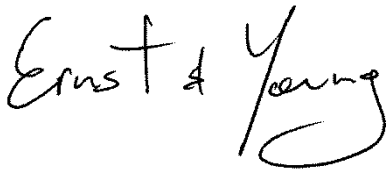
### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 16 to 32 of the Directors' Report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of G8 Education Limited for the year ended 31 December 2016, 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  
Engagement Partner  
Brisbane  
20 February 2017





## Shareholder Information

The total issued capital of the Company as at 31 December 2016 was 382,511,773. On 6 January 2017, 2,976,320 shares were issued pursuant to the dividend reinvestment plan. The total issued capital of the Company as at the date of this annual report is 385,488,093.

The Shareholder information set out below was applicable as at 8 February 2017.

### (a) Distribution of equity securities

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

	Class of equity security		
	Shares	Holders	Options
100,001 and Over	264,157,921	116	68.53%
10,001 – 100,000	57,766,105	2,558	14.99%
5,001 - 10,000	28,369,246	3,817	7.36%
1,001 - 5,000	31,248,939	11,910	8.11%
1 - 1,000	3,945,882	7,545	1.01%
	<b>385,488,093</b>	<b>25,946</b>	<b>100.00%</b>

There were 864 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	75,990,034	19.87
J P Morgan Nominees Australia	74,553,491	19.49
National Nominees Ltd	23,511,926	6.15
Citicorp Nominees Pty Ltd	15,983,231	4.18
BNP Paribas Nominees Pty Ltd	11,727,734	3.07
Geosine Pty Ltd	6,003,260	1.57
Mrs Kimberley Yin	4,854,726	1.27
RBC Investor Services	3,693,606	0.97
Geosine Pty Ltd	3,174,999	0.83
Brazil Farming Pty Ltd	2,870,000	0.75
Mr Craig Graeme Chapman	2,300,000	0.60
Mr Christopher Douglas Passfield & Mrs Rhonda Passfield	2,000,000	0.52
Mr Duncan Fraser Forrest & Mrs Judy Marie Forrest	1,901,750	0.50
Mr Garry Ronald Klye & Mrs Robyn Elizabeth Klye	1,710,000	0.45
Forsyth Barr Custodians Ltd	1,615,563	0.42
UBS Nominees Pty Ltd	1,585,972	0.42
Mrs Juwarseh Scott	1,300,000	0.34
Viss Holdings Pty Ltd	1,270,683	0.33
Mr Riccardo Pisaturo	1,200,000	0.31
AMP Life Ltd	984,466	0.26
	<b>238,231,441</b>	<b>62.28</b>

### (c) Substantial holders]

Substantial holders as at 8 February 2017 in the Company are set out below:

<b>Ordinary Shares</b>	<b>Number held</b>	<b>Percentage</b>
UBS Group AG	32,280,565	8.44%
J P Morgan Nominees Australia	24,202,029	7.47%

### (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 (appointed 1 January 2017)

C Scott, Executive Director

B Bailison, Non-Executive Director

M Reynolds, Non-Executive Director

S Forrester, Non-Executive Director

D Foster, Non-Executive Director

### Company Secretary

S Zeljko

### 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](http://www.g8education.edu.au)

### Share registry:

Advanced Share Registry Limited  
150 Stirling Hwy  
Nedlands, WA 6009

### Auditor:

Ernst & Young  
111 Eagle Street,  
Brisbane, QLD 4001

### Lawyers:

Minter Ellison Gold Coast  
165 Varsity Parade  
Varsity Lakes QLD 4217

### Securities exchange listing:

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



G8 Education<sup>ltd</sup>

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[www.g8education.edu.au](http://www.g8education.edu.au)