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www.evolveeducation.co.nz

28 May 2018

Evolve Education Group Full Year Earnings Announcement

Evolve Education Group (Evolve) today released its results for the financial year ended 31 March 2018.

Net profit after tax and before non-recurring items[1] was $12.0 million and was in-line with the guidance given at the February earnings update. This compares with $15.9 million recorded in the prior year. The company also incurred non-recurring expense items of $16.2 million after tax in the year, and this resulted in a net loss after tax of $4.2 million.

Non-recurring items were the cost of the settlement reached with the Inland Revenue Department on the historical Porse GST issue ($3 million), and the after-tax impairment expense of $13.2 million relating to the Home-Based Division and the closure of one early childhood education centre.

Earnings included $0.5 million in start-up losses on three new development centres, two of which commenced operations in the past year.

The final dividend for the year is 2.0 cents per share, compared with 2.5 cents per share paid as a final dividend in respect of the 2017 financial year. The dividend will be fully imputed for New Zealand taxation purposes and will be paid on 28 June 2018.

Total revenue of $159 million increased by $7.3 million or 4.8% on the prior year. This was driven by new centre acquisitions and the development of new centres, partly offset by a decline in enrolments in both Centres and Home-Based Divisions. Occupancy in the Centres division was 2% lower, on average, on a comparable basis, and enrolments in the Home-Based division were also lower than the prior year.

Earlier in the year seven existing centres were acquired, and in addition two new centres were developed and opened with occupancy rates lifting in line with the business plan. Evolve continued to take a cautious approach to centre acquisitions with no new centres acquired in the second half of the year. Evolve had a total of 129 centres in operation as at 31 March 2018, up from 121 at the end of the prior year.

[1] Net profit after tax and before non-recurring items is defined as net profit after tax and before the Porse GST settlement amount of $3 million, and the after-tax impairment expense of $13.2 million relating to the Home-Based Division and the closure of one early childhood education centre.

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Commenting on the result, Mark Finlay, Chief Executive Officer said:

"Overall, our occupancy was two per cent lower compared with a year ago, and this had a negative impact on our earnings performance particularly as we maintained our staffing levels in anticipation of higher enrolments. More than half of our early childhood education centres continued to have strong occupancy levels in excess of eighty per cent, but across the total business we did experience a reduction in occupancy. While occupancy levels do tend to fluctuate, this aspect of our performance was disappointing.

"We will continue our focus on attracting and retaining qualified teachers, as this is a critical element in maintaining high quality early childcare education services, enrolments and occupancy levels," Mr. Finlay said.

Evolve chair Alistair Ryan said that the 2018 year had been one of transition.

"After several years of significant growth through the acquisition of early childhood education centres, we have in the past year been consolidating our operations. Following the rationalisation of our portfolio of brands from over sixty to just six, we have now started to develop our own centres and reduced our emphasis on acquiring existing businesses. The early results from our own centre developments have been encouraging.

"While we are disappointed that the actions we have taken to lift enrolments and occupancy rates have yet to deliver the improvements anticipated, we understand that this will take a longer period of time to be fully achieved. We are clear what the drivers are for improving occupancy levels, and these include a consistent high-quality experience for children and their parents, well-maintained and fully-equipped facilities, and teachers who are highly engaged and well supported. It is in these areas that we will be continuing to focus our efforts in the year ahead.

"A further area of focus for us will be our cost base. In recent times the industry has had to cope with rising costs which have not been offset by commensurate increases in funding from the Government. While we welcome the recent announcement by the Government that payments for early childcare education are to increase after having been fixed for the past four years, we are disappointed that there has been no recovery of four years of backlog.

"Government funding is an important revenue stream for the company, parents and our teaching staff, and we are encouraged that the new Government has recognised that the early childhood sector has been underfunded for some time and is signalling an intention to provide better support going forward. It's clearly in New Zealand's best interests to have an early childcare education system that is appropriately funded and is able to attract and retain qualified and talented teachers," Mr. Ryan said.

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For any further inquiries please contact:
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NZX APPENDIX 1

EVOLVE EDUCATION GROUP LIMITED		
Audited results for announcement to the market		
Reporting Period	Year ended 31 March 2018	
Previous Reporting Period	Year ended 31 March 2017	
	Amount (NZ$'000s)	**Percentage Change**
Revenue from ordinary activities	$158,953	4.8%
Profit (Loss) from ordinary activities after tax attributable to security holders	($4,213)	-126.5%
Net profit (loss) attributable to the security holders	($4,213)	-126.5%
Interim/Final Dividend	**Amount per Security (NZ$)**	**Imputed Amount per Security (NZ$)**
Final Dividend	$0.0200	$0.0078
Record Date	12-Jun-18	
Dividend Payment Date	28-Jun-18	
The company's dividend reinvestment plan will be in effect with participation notices due to be received by 5:00pm 13 June 2017		
	31-Mar-18	**Previous Corresponding Period**
Net tangible assets per security (NZ$)	(0.29)	(0.25)
Due to the nature of the Company's business, intangible assets are a major component of total assets. Accordingly the net assets per security is considered as a more useful measure and at 31 March 2018 it was NZ$0.87 (2017: NZ$0.95)		
Details of entities over which control has been gained or lost during the period	Not applicable	
Details of associates and joint venture entities	Not applicable	
Comments	Refer annual financial statements, results presentation and media release attached.	
Dividends during year	**Amount per Security (NZ$)**	**Imputed Amount per Security (NZ$)**
Interim dividend - cents per share	$0.0250	$0.0097
	Supplementary dividend per security (NZ$)	**Date paid**
	$0.0044	20-Dec-17
Final dividend - cents per share	**Amount per Security (NZ$)**	**Imputed Amount per Security (NZ$)**
	$0.0250	$0.0097
	Supplementary dividend per security (NZ$)	**Date paid**
	$0.0044	20-Jun-17

APPENDIX 7 – NZSX Listing Rules

EMAIL: announce@nzx.com

Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one (Please provide any other relevant details on additional pages): 1

Full name of Issuer	EVOLVE EDUCATION GROUP LIMITED
Name of officer authorised to make this notice	Stephen Davies
Authority for event, e.g. Directors' resolution	Board resolution of 28 May 2018
Contact phone number	+64 27 2691525
Contact fax number	
Date	28 / 05 / 2018

Nature of event
Tick as appropriate

Bonus Issue	☐
If ticked, state whether: Taxable	☐
/ Non Taxable	☐
Conversion	☐
Interest	☐
Rights Issue Renouncable	☐
Rights Issue non-renouncable	☐
Capital change	☐
Call	☐
Dividend	X
If ticked, state whether: Interim	☐
Full Year	X
Special	☐
DRP Applies	X

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the class of securities	Ordinary Shares
ISIN	NZEVOE0001S4

If unknown, contact NZX

Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the class of securities	Ordinary Shares
ISIN	NZEVOE0001S4

If unknown, contact NZX

Number of Securities to be issued following event	
Minimum Entitlement	
Ratio, e.g (1) for (2)	for
Conversion, Maturity, Call Payable or Exercise Date (*Enter N/A if not applicable*)	
Treatment of Fractions	Round to nearest whole number
Tick if pari passu	☐
OR provide an explanation of the ranking	
Strike price per security for any issue in lieu or date Strike Price available.	

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents

Amount per security (does not include any excluded income)	$0.0200
Source of Payment	Retained earnings
Excluded income per security (only applicable to listed PIEs)	
Currency	NZD
Total monies	$0.0200

Supplementary dividend details - NZSX Listing Rule 7.12.7

Amount per security in dollars and cents	$0.003529
Date Payable	28 June 2018

Taxation

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus issue state strike price	$
Resident Withholding Tax	$0.001389
Imputation Credits (Give details)	$0.007778
Foreign Withholding Tax	$
FWP Credits (Give details)	

Timing (Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm *For calculation of entitlements -*	12 June, 2018
Application Date *Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.*	13 June 2018
Notice Date *Entitlement letters, call notices, conversion notices mailed*	
Allotment Date *For the issue of new securities. Must be within 5 business days of application closing date.*	28 June 2018

OFFICE USE ONLY
Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:

NZX

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Evolve Education Group Limited

Consolidated Financial Statements

For the Year Ended 31 March 2018

The Directors present the Consolidated Financial Statements of Evolve Education Group Limited, for the year ended 31 March 2018

The Consolidated Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 28 May 2018

Alistair Ryan	**Anthony Quirk**
Chairman	Chairman of Audit and Risk Committee
28 May 2018	28 May 2018

evolve education group

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2018

$'000	Note	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Revenue		158,953	151,439
Total income		**158,953**	**151,623**
Expenses			
Employee benefits expense	5	(92,173)	(82,675)
Building occupancy expenses	5	(22,961)	(20,332)
Direct expenses of providing services		(18,070)	(16,467)
Acquisition expenses	11	(102)	(714)
Integration expenses	11	(39)	(624)
Depreciation	9	(2,622)	(2,027)
Amortisation	12	(619)	(602)
Impairment expense	9, 12,13	(13,890)	-
Porse GST settlement	6	(3,000)	-
Other expenses	5	(4,118)	(4,558)
Total expenses		**(157,594)**	**(127,999)**
Profit before net finance expense and income tax		**1,359**	**23,624**
Finance income	5	47	104
Finance costs	5	(1,641)	(1,366)
Net finance expense	5	(1,594)	(1,262)
(Loss)/ Profit before income tax		**(235)**	**22,362**
Income tax expense	7	(3,978)	(6,489)
(Loss)/ Profit for the year		**(4,213)**	**15,873**
Other comprehensive income		-	-
Total comprehensive (loss)/income attributed to the owners of the Company		**(4,213)**	**15,873**
Earnings per share			
Basic (and diluted) earnings per share (cents)	20	(2.4)	8.9

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

Consolidated Statement of Movements in Equity

FOR THE YEAR ENDED 31 MARCH 2018

$'000	Note	ISSUED SHARE CAPITAL	RETAINED (DEFICIT)/ EARNINGS	TOTAL
As at 31 March 2016		**157,364**	**3,369**	**160,733**
Total comprehensive income		**-**	**15,873**	**15,873**
Shares issued under Dividend Re-investment Plan	17	655	-	**655**
Share issue costs relating to shares issued	17	(12)	-	**(12)**
Executive share based payment	17	99	-	**99**
Dividends paid	19	-	(8,677)	**(8,677)**
As at 31 March 2017		**158,106**	**10,565**	**168,671**
Total comprehensive loss		-	**(4,213)**	**(4,213)**
Shares issued under Dividend Re-investment Plan	17	1,058	-	**1,058**
Share issue costs relating to shares issued	17	(15)	-	**(15)**
Dividends paid	19	-	(8,926)	**(8,926)**
As at 31 March 2018		**159,149**	**(2,574)**	**156,575**

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

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Consolidated Statement of Financial Position

AS AT 31 MARCH 2018

$'000	Note	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Current assets			
Cash and cash equivalents	8, 22	5,362	4,095
Current income tax receivable		552	-
Other current assets		1,788	1,924
Total current assets		**7,702**	**6,019**
Non-current assets			
Property, plant and equipment	9	8,586	5,742
Deferred tax asset	7	1,636	840
Intangible assets	12	207,170	212,121
Total non-current assets		**217,392**	**218,703**
Total assets		**225,094**	**224,722**
Current liabilities			
Trade and other payables	14	10,019	10,376
Current income tax liabilities		-	841
Funding received in advance	15	17,864	18,052
PORSE GST settlement payable	6	1,500	-
Employee entitlements	16	6,836	6,582
Total current liabilities		**36,219**	**35,851**
Non-current liabilities			
Borrowings	21, 22	32,300	20,200
Total non-current liabilities		**32,300**	**20,200**
Total liabilities		**68,519**	**56,051**
Net assets		**156,575**	**168,671**
Equity			
Issued share capital	17	159,149	158,106
Retained (deficit)/earnings		(2,574)	10,565
		156,575	**168,671**

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

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Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2018

$'000	Note	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Cash flows from operating activities			
Receipts from customers (including Ministry of Education funding)		159,186	151,889
Payments to suppliers and employees		(137,219)	(123,114)
PORSE GST settlement	6	(1,500)	-
Taxes paid		(6,198)	(6,329)
Interest received		47	104
Net cash flows from operating activities	23	**14,316**	**22,550**
Cash flows from investing activities			
Payments for purchase of businesses	11	(9,892)	(21,678)
Payments for release of retentions		(203)	(115)
Receipts from sale of joint venture		-	1,628
Receipts from sale of business		100	-
Payments for software, property, plant and equipment		(5,630)	(1,872)
Net cash flows from investing activities		**(15,625)**	**(22,037)**
Cash flows from financing activities			
Share issue costs	17	(15)	(12)
Interest paid on borrowings		(1,641)	(1,343)
Bank borrowings drawn	22	117,500	198,340
Bank borrowings repaid	22	(105,400)	(224,005)
Dividends paid	19	(7,868)	(8,022)
Net cash flows from financing activities		**2,576**	**(35,042)**
Net cash flows	22	**1,267**	**(34,529)**
Cash and cash equivalents at beginning of period	8	4,095	38,624
Cash and cash equivalents at end of period	8	**5,362**	**4,095**

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

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

Index to Notes to the Consolidated Financial Statements

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

1. Reporting Entity

Evolve Education Group Limited (the "Company") is a company incorporated in New Zealand, registered under the Companies Act 1993 and listed on the NZX Main Board ("NZX") and the Australian Stock Exchange ("ASX"). The Company is a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013 ("the Act"). The registered office is located at Level 2, 54 Fort Street, Auckland, New Zealand.

The Group's principal activities are to invest in the provision and management of a high quality early childhood education service which currently gives parents and caregivers the option of which service best suits their child's learning and care needs (see Note 4, Segment Information). Information on the Group's structure is provided in Note 10.

2. Basis of Preparation

Statement of Compliance

The consolidated financial statements (the "Group financial statements") have been prepared in accordance with the requirements of the NZX and ASX listing rules. The Group financial statements are for the Evolve Education Group Limited Group (the "Group"). The Group financial statements comprise the Company and its subsidiaries. In accordance with the Act, separate financial statements for the Company are not required to be prepared.

These Group financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). The Group is a Tier 1 reporting entity. The Group financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee interpretations.

The financial statements for the year ended 31 March 2018 were approved and authorised for issue by the Board of Directors on 28 May 2018.

Going Concern

The financial statements have been prepared on a going concern basis. From time to time and mainly due to funding received in advance from the Ministry of Education and employee entitlements the current liabilities may exceed current assets. The Group has funding arrangements in place (as per Note 21) with its bank to meet all its current obligations. Accordingly, the preparation of the financial statements on a going concern basis is appropriate.

Basis of Measurement

The financial statements are prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified, as noted below.

Functional and Presentation Currency

These financial statements are presented in New Zealand Dollars ($) which is the Group's functional and presentation currency. Unless otherwise stated, financial information has been rounded to the nearest thousand dollars ($'000).

2. Basis of Preparation (continued)

Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements required in the application of accounting policies are described below.

Business combinations

As discussed in note 3(a), business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Identification and valuation of intangible assets acquired

As part of the accounting for business combinations, the Group reviews each acquisition on a case by case basis to determine the nature and value of any intangible assets acquired. Different factors are considered including market presence of the acquired entity, the existence of any specialised or developed assets (for example, software and training materials), and the nature and longevity of the acquired entity's customer-base. Following this assessment the Group determines if the value of the intangible assets acquired can or should be allocated between fixed life or indefinite life intangible assets and goodwill. Once identified the Group assesses how the intangible assets are to be valued and this requires the use of judgement as follows:

- Brand valuations require an assessment of the appropriate valuation methodology and in the case of the Group the expected life of the brand names, the forecast sales for comparable branded services if available or, if not, branded sales for "proxy" industries, an appropriate royalty rate and discount factors to be applied to the forecast royalty stream.
- Fixed life intangible assets (for example, software, customer lists) require an assessment of the appropriate valuation methodology and depending on the methodology adopted the Group must make assessments including likely replacement costs, estimated useful lives of the assets, relevance of customer databases to the Group and the price the Group is willing to pay per customer/contract.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in notes 3(h) and 3(l) below. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Further detail on the assumptions applied are included in Note 13.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

2. Basis of Preparation (continued)

Identification of Cash Generating Units

In order to complete the impairment review referred to above, the Group must identify the individual cash generating units ("CGUs") that best represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill in particular does not generate cash flows in its own right and therefore it must be allocated to a CGU for goodwill impairment testing purposes. Identifying CGUs requires judgement and must be at the lowest level to minimise the possibility that impairments of one asset or group will be masked by a high-performing asset. The Group has considered all factors and assessed that the operating segments identified at Note 4 best represent the CGU's for impairment testing purposes.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses (refer Note 7).

New Standards and Interpretations Not Yet Adopted

The Group has adopted all applicable Accounting Standards and Interpretations issued by the External Reporting Board ('XRB') that are mandatory for the current reporting period.

A number of new standards, amendments to standards and interpretations have been approved but are not yet effective and have not been adopted by the Group for the period ended 31 March 2018. The Group's assessment and expected impact of these Standards is set out below:

NZ IFRS 9: Financial Instruments

Nature of change

NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. The standard introduces new rules for hedge accounting and a new impairment model for financial assets. The NZ IFRS 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology under the current standard (NZ IAS 39).

Potential impact

- There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.
- The new hedge accounting rules are not applicable given the Group does not have any hedging relationships.
- The Group intends to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables. Based on the assessment undertaken to date, the Group anticipates that only parental debtors (held at amortised cost) will be impacted. It is anticipated that the application of the expected credit loss model will result in an immaterial transition adjustment that will be recognised in opening retained earnings as permitted by the standard. It is not expected that there will be an impact to future earnings as a result of implementation of IFRS 9.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

2. Basis of Preparation (continued)

New Standards and Interpretations Not Yet Adopted (continued)

NZ IFRS 9: Financial Instruments (continued)

Date of adoption

NZ IFRS 9 is effective for reporting periods beginning on or after 1 January 2018. The Group will apply the new rules from 1 April 2018 (i.e. effective for the financial year ending 31 March 2019), with the practical expedients permitted under the standard.

NZ IFRS 15: Revenue from Contracts with Customers

Nature of change

NZ IFRS 15 replaces the current revenue recognition guidance in NZ IAS 18 Revenue which covers contracts for the sale of goods and services and NZ IAS 11 Construction Contracts.

The new standard is based on the principle that revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services . The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Potential impact

Management are currently completing their assessment of the impact of this standard. The assessment to date has focused on segregating the different revenue streams that exist within the Group. Based on the assessment performed to date, the Group expects adoption of the new standard to have the following impact:

- No impact on ECE Centre Ministry of Education funding or Childcare fees (refer note 3(c) for description of the current accounting for revenue streams).
- Management are assessing the full impact of the new standard on its Home-Based ECE revenue streams, specifically education income. However, given the nature of these revenue streams, it is expected that there will be no significant impact on the consolidated financial statements from the adoption of NZ IFRS 15. Management are still reviewing the appropriate classification within the Consolidated Statement of Comprehensive Income of certain Home-Based revenue streams.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures.

Date of adoption

NZ IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Group intends to adopt the standard for the year ended 31 March 2019 using the modified retrospective approach. This means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 April 2018 and that comparatives will not be restated.

NZ IFRS 16: Leases

Nature of change

NZ IFRS 16 replaces all existing lease requirements in NZ IAS 17 Leases. It will result in almost all leases, where the Group is a lessee, being recognised in the Consolidated Statement of Financial Position, as the distinction between operating and finance leases is removed. Under the new standard, a lessee is required to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The income statement will also be impacted by the recognition of an interest expense and a depreciation expense and the removal of the current rental expense currently recognised within 'building occupancy expenses'.

The standard includes two recognition exemptions for lessees, short-term (those with a term of 12 months or less) and low-value leases (such as leases of laptops).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

2. Basis of Preparation (continued)

New Standards and Interpretations Not Yet Adopted (continued)

NZ IFRS 16: Leases (continued)

Potential impact

The standard will affect the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $139m, see note 24. The Group is in the process of identifying the current operating lease contracts that will be in the scope of NZ IFRS 16 at transition by reviewing and analysing the terms of these contracts. The Group has not quantified the effect of the new standard, however the following impacts are expected:

- the total assets and liabilities on the Consolidated Statement of Financial Position will increase with a decrease in total net assets, due to the reduction of capitalised asset being on a straight-line basis whilst the liability is reduced by the principal amount of repayments. Net current assets will show a decrease due to an element of the liability being disclosed as current liability;
- interest expense will increase due to the unwinding of the effective interest rate implicit in the lease. Interest expense will be greater earlier in a lease life due to the higher principal value causing profit variability over the course of a lease's life. This effect may be partially mitigated due to number of leases held in the Group at different stages of the lease's term; and
- operating cash flows will be higher as repayment of the principal portion of all lease liabilities will be classified as financing activities. There will be no cash effect on the Group and the change is for financial reporting purposes only.

Date of adoption

NZ IFRS 16 is effective for reporting periods beginning on or after 1 January 2019. At this stage, the Group intends to adopt the simplified transition approach in the year ending 31 March 2020.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of Consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when the Group 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. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; less
- the net recognised amount of the identifiable assets acquired, the liabilities assumed, measured at fair value, and any non-controlling interest in the acquiree.

3. Significant Accounting Policies (continued)

(a) Basis of Consolidation (continued)

Business combinations (continued)

When the excess is negative, a bargain purchase gain is recognised immediately in the Consolidated Statement of Comprehensive Income.

Consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in Consolidated Statement of Comprehensive Income.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Assets held for sale

Non-current assets, or disposal Groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal Group, are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal Group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant Accounting Policies (continued)

(b) Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following method. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Intangible assets

The fair value of brands acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the brand being owned ("relief from royalty method"). The fair value of customer relationships acquired in a business combination is determined using the notional price per customer methodology. Software acquired in a business combination is determined using an estimate of replacement cost. Syllabus material acquired in a business combination is determined using the market elimination method.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Revenue

Revenues are recognised when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the Group, and specific criteria have been met for each of the Group's activities as described below. In all cases, the Group assesses revenue arrangements against specific criteria to determine if it is acting as the principal or agent in a revenue transaction. In an agency relationship only a portion of the revenue received on the Group's own account is recognised as revenue.

Ministry of Education funding

Ministry of Education funding is recognised initially as funding received in advance and is then recognised in the Statement of Comprehensive Income over the period childcare services are provided. Income receivable from the Ministry of Education by way of a wash-up payment is recognised as an asset, and is netted off against the income received in advance.

Childcare fees

Fees paid by government (childcare benefit) or parents are recognised as and when a child attends, or was scheduled to attend, a childcare facility or receives home-based care.

Education income

Revenue from the provision of tertiary education is recognised as the service is rendered.

Interest income

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant Accounting Policies (continued)

(d) Taxation

Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- temporary differences arising on the initial recognition of goodwill; and
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions, if any, and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(e) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Foreign exchange gains and losses resulting from the settlement of the above are recognised in the Consolidated Statement of Comprehensive Income.

(f) Dividends

The Group recognises a liability to make cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per company law in New Zealand, a distribution is authorised when it is approved by the directors. A corresponding amount is recognised directly in equity.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant Accounting Policies (continued)

(g) Property, Plant and Equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the Consolidated Statement of Comprehensive Income.

Depreciation

Depreciation is charged based on the cost of an asset less its residual value. Depreciation is charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the estimated useful lives of each item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Useful lives as at balance date were:

Buildings	50 years
Plant and equipment	4 years
Office furniture & fittings	4 years
Leasehold improvements	4 years
Motor vehicles	5 years

The depreciation methods, useful lives and residual values are reviewed at the reporting date and adjusted if appropriate. Work in progress is not depreciated until the asset is available for use.

(h) Intangible Assets

Goodwill

Goodwill initially represents amounts arising on acquisition of a business and is the difference between the cost of acquisition and the fair value of the net identifiable assets acquired.

Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is reviewed at each balance date to determine whether there is any objective evidence of impairment (refer to (l) Impairment).

Other intangible assets

Other intangible assets that are acquired by the Group and have finite and indefinite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses, as appropriate. Other intangible assets have been amortised on a straight-line basis over their estimated useful lives:

Customer lists	4 years
Syllabus material	4 years
Management contracts	4 years
Software	4 years
Brands	Indefinite life

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Consolidated Statement of Comprehensive Income as incurred.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant Accounting Policies (continued)

(i) Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Consolidated Statement of Financial Position.

(j) Financial Instruments

Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period; these are classified as non-current assets.

Loans and receivables comprise cash and cash equivalents and trade and other receivables, included in other current assets.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and bank overdrafts. In the Consolidated Statement of Financial Position bank overdrafts are shown within borrowings in current liabilities.

Non-derivative financial liabilities

The Group initially recognises financial liabilities on the date that they are originated. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Financial liabilities comprise borrowings, bank overdrafts, trade and other payables and PORSE GST settlement payable.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant Accounting Policies (continued)

(l) Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit and loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor and adverse changes in the payment status of debtors.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount, refer to note 13.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are grouped so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal management purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Employee Benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in respect of services provided by employees up to the reporting date and measured based on expected date of settlement.

Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

The liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution plan (KiwiSaver)

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant Accounting Policies (continued)

(n) Expenses

Operating lease payments

Payments made under operating leases are recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Consolidated Statement of Comprehensive Income over the lease term as an integral part of the total lease expense.

Finance expenses

Finance expenses comprise interest expense on borrowings and establishment fees. All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

Share issue costs

Certain costs have been incurred in relation to the issue of shares. These costs are directly attributable to the Group issuing equity instruments and include amounts paid to legal, accounting and other professional advisers. These costs have been accounted for as a deduction from equity.

(o) Consolidated Statement of Cash Flows

The following are the definitions of the terms used in the Consolidated Statement of Cash Flows:

- Cash includes cash on hand, bank current accounts and any bank overdrafts.
- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of businesses, property, plant and equipment and of investments.
- Financing activities are those activities that result in changes in the size and composition of the equity structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid and financing costs are included in financing activities.

(p) Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn and incur expenses, whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the Group, has been identified as the Chief Executive Officer.

(q) Earnings Per Share

Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the financial period.

3. Significant Accounting Policies (continued)

(r) Share Based Payments

Certain senior management receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions with employees is measured by reference to the fair value at grant date.

The cost of equity-settled transactions is recognised, together with a corresponding increase to the share based payments reserve within equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

(s) Goods and Services Tax

All amounts are shown exclusive of Goods and Services Tax (GST) including items disclosed in the Consolidated Statement of Cash Flows, except for trade receivables, included within other current assets, and trade payables that are stated inclusive of GST.

(t) Comparative balances

Comparative balances within the Consolidated Statement of Comprehensive Income, Consolidate Statement of Cash Flows and its related notes have been reclassified to conform with changes in presentation and classification adopted in the current period. The impact of these changes were not material.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

4. Segment Information

The Group has two reportable operating segments, as described below, which are the strategic business models the Group invests in within the early childhood education ("ECE") industry in New Zealand. The Group operates entirely within New Zealand. Each segment is managed separately. For each of the segments, the Group's Chief Executive Officer ("CEO" and the "Chief Operating Decision Maker") reviews internal management reports at least on a monthly basis. The following summary describes the current operations in each of the Group's reportable segments:

ECE Centres – generally purpose built facilities that offer all day or part-day early childhood services, and

Home-based ECE – involves an independent educator delivering services to a small group of children in a home setting and is supported by a registered teacher coordinator who oversees the children's learning progress.

No operating segments have been aggregated to form the above reportable operating segments. The Group accounting policies are applied consistently to each reporting segment.

Other operations include ECE Management, a non-reportable segment, whereby the Group provides management and back-office expertise to ECE centres but it does not own the centre. This activity does not meet any of the quantitative thresholds for determining reportable segments and as such it has been included as an unallocated amount. Unallocated amounts also represent other corporate support services, acquisition and integration costs.

The Group's corporate and management costs include certain financing income and expenditure and taxation that are managed on a Group basis and are not allocated to operating segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on NZ GAAP measures of profitability and in relation to the Group's segments, segment profit before income tax. In addition to GAAP measures of profitability, the Group also monitors its profitability using non-GAAP financial measures (that is, earnings before interest, tax, depreciation and amortisation ("EBITDA")) and underlying EBITDA, as described below and as included in the internal management reports that are reviewed by the Group's CEO. EBITDA is not defined by NZ GAAP, IFRS or any other body of accounting standards and the Groups' calculation of this measure may differ from similarly titled measures presented by other companies. This measure is intended to supplement the NZ GAAP measures presented in the Group's financial information.

Underlying EBITDA reflects a number of adjustments that are defined as:

- **Acquisition expenses** – in acquiring the businesses and net assets in Note 11 the Group incurred certain expenses directly related to those acquisitions including agents' commissions, legal fees, financing fees and financial, tax and operational due diligence fees.
- **Integration expenses** – third party costs associated with the integration of the businesses acquired. In 2017, they included the employment costs of the Group's acquisition and integration team. As fewer centres have been acquired in 2018, no employment costs have been allocated to integration expenses for this year.
- **Material non-recurring items** – one off or non recurring in nature. These are items that have not occurred in the recent years and are not forecast to occur in the future, such as impairment expense and PORSE GST settlement.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

4. Segment Information (continued)

31 March 2018	Note	ECE Centres $'000	Home-based ECE $'000	Unallocated $'000	Consolidated $'000
Revenue		137,999	20,558	396	**158,953**
Total income		**137,999**	**20,558**	**396**	**158,953**
Operating expenses		(109,994)	(19,677)	(7,651)	(137,322)
Underlying EBITDA		**28,005**	**881**	**(7,255)**	**21,631**
Acquisition expenses		-	-	(102)	(102)
Integration expenses		-	-	(39)	(39)
Material non-recurring items:					
PORSE GST Settlement	6	-	(3,000)	-	(3,000)
Impairment expense	9,12,13	(957)	(12,933)	-	(13,890)
EBITDA		**27,048**	**(15,052)**	**(7,396)**	**4,600**
Depreciation	9	(2,373)	(173)	(76)	(2,622)
Amortisation	12	(60)	(218)	(341)	(619)
Earnings before interest and tax		**24,615**	**(15,443)**	**(7,813)**	**1,359**
Net finance expense		-	-	(1,594)	(1,594)
Reportable segment profit/(loss) before tax		**24,615**	**(15,443)**	**(9,407)**	**(235)**
Total assets		**218,364**	**3,289**	**3,441**	**225,094**
Total liabilities		**(22,947)**	**(9,289)**	**(36,283)**	**(68,519)**

Included within Revenue is revenue from the Ministry of Education totalling $108.0m for the year (2017: $104.5m).

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

4. Segment Information (continued)

31 March 2017	Note	ECE Centres $'000	Home-based ECE $'000	Unallocated $'000	Consolidated $'000
Total revenue		**126,495**	**24,060**	**884**	**151,439**
Other income		24	-	160	184
Total income		**126,519**	**24,060**	**1,044**	**151,623**
Operating expenses		**(95,542)**	**(21,449)**	**(7,041)**	**(124,032)**
Underlying EBITDA		**30,977**	**2,611**	**(5,997)**	**27,591**
Acquisition expenses		-	-	(714)	(714)
Integration expenses		-	-	(624)	(624)
EBITDA		**30,977**	**2,611**	**(7,335)**	**26,253**
Depreciation	9	(1,715)	(249)	(63)	(2,027)
Amortisation	12	(60)	(244)	(298)	(602)
Earnings before interest and tax		**29,202**	**2,118**	**(7,696)**	**23,624**
Net finance expense		-	-	(1,262)	(1,262)
Reportable segment profit/(loss) before tax		**29,202**	**2,118**	**(8,958)**	**22,362**
Total assets		**204,561**	**16,819**	**3,342**	**224,722**
Total liabilities		**(22,491)**	**(10,369)**	**(23,191)**	**(56,051)**

Other income for the year ended March 2017 includes $160k from the reversal of a contingent consideration provision relating to the acquisition of an ECE centre in 2015.

5. Disclosure of Items in the Consolidated Statement of Comprehensive Income

Other Expenses

$'000	Note	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Included in other expenses are:			
Audit fees	26	213	205
Directors' fees	25	479	385
Other items		3,426	3,968
Total other expenses		**4,118**	**4,558**

Other items includes corporate and support office costs not already disclosed separately. They include travel expenses, legal costs not relating to the acquisition of businesses in Note 11, consultancy costs and general office expenses.

Building occupancy expenses

Building occupancy expenses of $23.0m (2017: $20.3m) include $21.1m (2017: $18.6m) of expenditure in relation to minimum operating lease payments.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

5. Disclosure of Items in the Consolidated Statement of Comprehensive Income (continued)

Employee benefits expense

	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
$'000		
Wages and salaries	87,078	78,078
Kiwisaver contributions	2,205	1,946
Payments to agency contractors	1,612	1,029
Other employee benefits expense	1,278	1,622
Total employee benefits expense	**92,173**	**82,675**

Net finance expense

	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
$'000		
Interest received		
Bank deposits	47	104
Total interest received	**47**	**104**
Interest expense		
Interest on borrowings	(1,641)	(1,366)
Total interest expense	**(1,641)**	**(1,366)**
Net finance expense	(1,594)	(1,262)

6. Porse GST Settlement

During the year the Group reached formal agreement with the Inland Revenue Department (IRD) in respect of various taxation matters relating to the Group's wholly owned PORSE In Home Childcare business (PORSE).

The settlement agreement with the IRD requires PORSE to pay $3.0 million to the IRD and ensures that all current areas of discussion between IRD and the Group are closed off.

The Group previously reported this matter as a contingent liability as at 31 March 2017, then recorded a $3.0 million provision in the Consolidated Statement of Financial Position in its interim report for the six months ended 30 September 2017. $1.5m of the total amount payable has been paid as at 31 March 2018, with the remaining balance due in the year to 31 March 2019.

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

7. Taxation

Income tax expense

The major components of income tax expense for the period are:

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Current income tax:		
Current income tax expense	4,988	6,609
Prior year adjustments	(214)	(184)
	4,774	6,425
Deferred tax:		
Relating to origination and reversal of temporary differences	(943)	(106)
Prior year adjustments	147	170
	(796)	**64**
Total income tax expense	**3,978**	**6,489**

Reconciliation of tax expense

Tax expense is reconciled to accounting profit as follows:

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Profit before income tax	(235)	22,362
At statutory income tax rate of 28%	**(66)**	**6,261**
Non-assessable income and non-deductible expenses for tax purposes:		
Impairment of goodwill	3,236	-
PORSE GST settlement	840	-
Non-deductible expenses	35	242
Prior year adjustments	(67)	(14)
Total income tax expense	**3,978**	**6,489**

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

7. Taxation (continued)

Deferred tax

Deferred tax relates to the following:

	31 MARCH 2018			31 MARCH 2017		
	Consolidated Statement of Comprehensive Income	Arising from Acquisition of Businesses	Consolidated Statement of Financial Position	Consolidated Statement of Comprehensive Income	Arising from Acquisition of Businesses	Consolidated Statement of Financial Position
$'000						
Property, plant and equipment	80	-	1,363	(48)	118	1,283
Intangible assets	587	-	(942)	66	-	(1,529)
Employee entitlement provisions	26	-	921	58	-	895
Other timing differences	103	-	294	(140)	-	191
Deferred tax benefit/ (expense)	**796**	**-**		**(64)**	**118**	
Net deferred tax assets			**1,636**			**840**

Imputation credits

Imputation credits available for use in subsequent reporting periods is $11,111,764 (2017: $9,053,076), including imputation credits that will arise from the payment of the amount of the provision for income tax. No dividends are provided for or receivable at balance date that would affect the available imputation credits at balance date.

8. Cash and Cash Equivalents

	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
$'000		
Cash at banks and on hand	3,647	1,968
Short-term deposits	1,715	2,127
Total cash and cash equivalents	5,362	4,095

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and 3 months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

9. Property, Plant and Equipment

31 March 2018		Land	Buildings	Plant and Equipment	Office Furniture and Fittings	Leasehold Improvements	Motor Vehicles	Work in Progress	Total
$'000	Note								
Cost									
Opening balance		-	-	453	7,796	1,939	313	278	10,779
Additions/Transfers		725	2,195	208	689	1,301	17	93	5,228
Acquisition of businesses	11	-	-	66	642	54	-	-	762
Disposals		-	-	(12)	(93)	(68)	(117)	-	(290)
Closing balance		**725**	**2,195**	**715**	**9,034**	**3,226**	**213**	**371**	**16,479**
Depreciation and impairment									
Opening balance		-	-	(165)	(4,332)	(444)	(96)	-	(5,037)
Depreciation charge for period		-	(18)	(148)	(1,763)	(636)	(57)	-	(2,622)
Disposals		-	-	5	63	9	68	-	145
Impairment expense	13	-	-	-	(174)	(166)	(39)	-	(379)
Closing balance		**-**	**(18)**	**(308)**	**(6,206)**	**(1,237)**	**(124)**	**-**	**(7,893)**
Net book value		**725**	**2,177**	**407**	**2,828**	**1,989**	**89**	**371**	**8,586**

In the current year, $2.9m of centre land and buildings were acquired. The land and buildings were previously leased by the Group for centre operational purposes.

31 March 2017		Land	Buildings	Plant and Equipment	Office Furniture and Fittings	Leasehold Improvements	Motor Vehicles	Work in Progress	Total
$'000	Note								
Cost									
Opening balance		-	-	276	6,996	931	419	371	8,993
Additions/Transfers		-	-	92	655	1,100	44	(137)	1,754
Acquisition of businesses		-	-	90	466	19	21	44	640
Disposals		-	-	(5)	(321)	(111)	(171)	-	(608)
Closing balance		**-**	**-**	**453**	**7,796**	**1,939**	**313**	**278**	**10,779**
Depreciation and impairment									
Opening balance		-	-	(72)	(3,094)	(153)	(172)	-	(3,491)
Depreciation charge for period		-	-	(94)	(1,502)	(364)	(67)	-	(2,027)
Disposals		-	-	1	264	73	143	-	481
Closing balance		**-**	**-**	**(165)**	**(4,332)**	**(444)**	**(96)**	**-**	**(5,037)**
Net book value		**-**	**-**	**288**	**3,464**	**1,495**	**217**	**278**	**5,742**

A $1.6m reclassification adjustment between cost and accumulated depreciation has been made to the opening balances in the comparative period. There is no impact to the overall net book value of property, plant and equipment.

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FOR THE YEAR ENDED 31 MARCH 2018

10. Group Information

Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal Activities	Country of Incorporation	Balance Date	Equity Interest
Evolve Education Group 1 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 2 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 3 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 4 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 5 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 6 Limited	Non-trading	NZ	31 March	100%
Evolve Management Group Limited	Investment company	NZ	31 March	100%
ECE Management Limited	Management services	NZ	31 March	100%
Lollipops Educare Holdings Limited	Investment company	NZ	31 March	100%
Lollipops Educare Limited	Evolve corporate office	NZ	31 March	100%
Lollipops Educare Centres Limited	ECE centre owner	NZ	31 March	100%
Lollipops Educare (Hastings) Limited	ECE centre owner	NZ	31 March	100%
Lollipops Educare (Birkenhead) Limited	ECE centre owner	NZ	31 March	100%
Evolve Home Day Care Limited	Investment company	NZ	31 March	100%
Au Pair Link Limited	Home-care provider	NZ	31 March	100%
Porse In Home Childcare (NZ) Limited	Home-care provider	NZ	31 March	100%
Porse Franchising (NZ) Limited	Provides services to Porse franchisees	NZ	31 March	100%
Porse Education & Training (NZ) Limited	Education and training provider	NZ	31 March	100%
For Life Education & Training (NZ) Limited	Education and training provider	NZ	31 March	100%

11. Business Combinations

During the 12 months ended 31 March 2018 the Group acquired 7 ECE centres from several separate vendors, for a combined purchase price of $9.9m. Total net assets acquired were $1.0m resulting in goodwill on acquisition of $8.9m. Total acquisition costs incurred during the period were $102k and these are included in the Statement of Comprehensive Income and cash flows from operating activities in the Statement of Cash Flows. No cash was acquired. A summary of the net assets acquired is included in the following table.

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11. Business Combinations (continued)

Assets and liabilities acquired and consideration paid	$'000
Assets	
Other current assets	7
Property, plant and equipment	762
Software	3
Funding receivable	398
	1,170
Liabilities	
Employee entitlements	(15)
Other current liabilities	(118)
	(133)
Total identifiable net assets at fair value	**1,037**
Goodwill arising on acquisition	8,855
Purchase consideration transferred	**9,892**
Purchase consideration	**9,892**

The goodwill of $8.9m predominantly comprises the future earnings potential of bringing together a group of ECE centres under one centrally managed group. Goodwill is allocated to each of the segments identified at Note 13, as appropriate.

At balance date, the acquisitions have contributed revenue of $7.2m and a net profit after tax of $465k to the Group's results before allowing for upfront acquisition expenses and integration costs. As the acquisitions were made at different times during the year it is anticipated these acquisitions would have contributed revenue of $9.5m and a net profit after tax of $665k (excluding upfront and non-recurring acquisition costs of $102k and integration expenses of $39k, but including interest on the purchase price) had they all been acquired on 1 April 2017.

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12. Intangible Assets

31 March 2018		Customer Lists	Syllabus Material	Management Contracts	Software	Brands	Goodwill	Total
$'000	Note							
Cost								
Opening balance		301	200	372	1,576	4,787	206,094	213,330
Additions		-	-	-	402	-	-	402
Acquisition of businesses	11	-	-	-	3	-	8,855	8,858
Disposals		-	-	-	-	-	(81)	(81)
Closing balance		**301**	**200**	**372**	**1,981**	**4,787**	**214,868**	**222,509**
Amortisation and impairment								
Opening balance		(175)	(117)	(217)	(700)	-	-	(1,209)
Amortisation for period		(75)	(50)	(93)	(401)	-	-	(619)
Disposals		-	-	-	-	-	-	-
Impairment expense	13	(27)	(33)	-	(212)	(1,683)	(11,556)	(13,511)
Closing balance		**(277)**	**(200)**	**(310)**	**(1,313)**	**(1,683)**	**(11,556)**	**(15,339)**
Net book value		**24**	**-**	**62**	**668**	**3,104**	**203,312**	**207,170**

31 March 2017		Customer Lists	Syllabus Material	Management Contracts	Software	Brands	Goodwill	Total
$'000	Note							
Cost								
Opening balance		301	200	372	1,458	4,787	184,346	191,464
Additions		-	-	-	118	-	-	118
Acquisition of businesses		-	-	-	-	-	21,748	21,748
Closing balance		**301**	**200**	**372**	**1,576**	**4,787**	**206,094**	**213,330**
Amortisation and impairment								
Opening balance		(100)	(67)	(124)	(316)	-	-	(607)
Amortisation for period		(75)	(50)	(93)	(384)	-	-	(602)
Disposals		-	-	-	-	-	-	-
Closing balance		**(175)**	**(117)**	**(217)**	**(700)**	**-**	**-**	**(1,209)**
Net book value		**126**	**83**	**155**	**876**	**4,787**	**206,094**	**212,121**

13. Impairment Testing of Goodwill and Intangible Assets With Indefinite Lives

Goodwill and brands acquired through business combinations with indefinite lives have been allocated, for impairment testing, to the cash generating units ("CGUs") below, which are also the operating segments. Brands are also assessed for impairment separately.

31 March 2018	ECE Centres	Home-based ECE	ECE Management	Total
$'000				
Goodwill	202,646	-	666	203,312
Brands with indefinite useful lives	3,104	-	-	3,104

31 March 2017	ECE Centres	Home-based ECE	ECE Management	Total
$'000				
Goodwill	194,828	10,600	666	206,094
Brands with indefinite useful lives	3,104	1,683	-	4,787

Impairment expense

In the current year the Group recognised an impairment expense of $13.9m.

The expense recognised the full impairment of Home-based ECE's brands ($1.6m), goodwill ($10.6m), other intangible assets ($0.3m) and property, plant and equipment ($0.4m), totalling $12.9m and was calculated using the value in use basis (using a discount rate of 15.4%). Declining enrolments have reduced the revenue and profitability of this division since the date of acquistion by the Group. Subsequent to year end the Company decided to commence a sales process for the PORSE business unit, which comprises the majority of the Home-based ECE division. It is anticipated that some part of the impaired asset value may be recovered upon completion of a successful sales process.

In addition, an impairment of $1.0m was recognised in respect of the ECE Centres division. Prior to year end, the Group decided to close the operation of a centre.

ECE Centres - Goodwill

The Group performed its annual impairment test at balance date. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets covering a five year period.

13. Impairment Testing of Goodwill and Intangible Assets With Indefinite Lives (continued)

Key assumptions used in value in use calculations

The key "base" assumptions used in the calculation of value in use for ECE Centres are:

- Revenue growth through the forecast period
- Expense growth through the forecast period
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

The table below sets out the key assumptions for ECE Centres:

	31 MARCH 2018 Centres	31 MARCH 2017 Centres
Revenue growth attributable to price (% per annum on average)	1.5%	
Revenue growth attributable to increase in enrolment (% per annum on average)	0.7%	
Total revenue growth (% per annum on average)	2.2%	1.0%
Expense growth (% per annum on average)	2.1%	1.0%
Pre-tax discount rates (%)	15.4%	15.4%
Long term growth rate (%)	2.0%	2.0%

Revenue - Revenue is received from the Ministry of Education and parents/caregivers, which in turn is based on occupancy. It is assumed the Ministry of Education continues to support early childhood education to the value of approximately 65% of ECE revenue earned. If the Government reduces its funding it could lead to the increased requirement of parents and caregivers to make up the difference. If Government funding was to decrease, management would need to initiate appropriate responses to maintain profitability. The assumptions reflect the impact of future increases in funding as announced by the Government.

Expenses - The estimate of percentage growth in expenses includes the weighted average of expected increase in wages and other operating expenses such as operating lease costs. Management forecasts other expenses based on the current structure of business, adjusting for inflationary increase and expected increases in occupancy but not reflecting any further cost savings measures.

Pre-tax discount rates – The discount rates represent the current market assessment of the risks specific to the CGU, taking into account the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors using the capital asset pricing model. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Long term growth rate - This rate is based on current inflation rates in New Zealand and forecast or assumed increase in revenues from parents/caregivers and the Government. The rate used is not inconsistent with the long term growth rate experienced industry-wide. Management are not aware of any information to suggest that the growth assumptions are at risk.

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13. Impairment Testing of Goodwill and Intangible Assets With Indefinite Lives (continued)

Sensitivity to changes in key assumptions

ECE Centres - Goodwill

The recoverable amount of the ECE centres CGU is $211m (2017: $234m). This exceeds the carrying amount of the CGU as at 31 March 2018 by $7.9m (2017: $39.1m)

The most sensitive assumption in the calculation of value in use for the ECE Centres CGU is revenue growth. The following summarises the effect of a change in the revenue "base" assumptions, with all other assumptions remaining constant:

$'000	Headroom/ (Impairment)
Enrolment growth +0.5% above base	25,800
Enrolment growth -0.5% under base	(3,480)
Price growth +0.5% above base	33,170
Price growth -0.5% below base	(16,972)

ECE Centres - Brands

The recoverable amount of the ECE Centres was $4.7m (2017: $3.7m) at balance date. The increase in headroom is primarily attributable to an increase in the number of centres trading under the Lollipops brand. The assessment is based on the discounted estimated royalty payments that have been avoided as a result of the brands being owned ("relief from royalty method") using revenue projections from the Group's financial forecasts covering a 12-month period. The pre-tax discount rate applied to cash flow projections is 15.4% (2017: 15.4%) and cash flows beyond the one year period are extrapolated using a 2% (2017: 2%) terminal growth rate that is not inconsistent with the long term growth rate experienced industry-wide. As the recoverable value was in excess of the carrying value management did not identify an impairment for these brands.

The calculation of relief from royalty for ECE Centres brands is most sensitive to the following assumptions:

- Revenue growth - as above, revenue is received from the Ministry of Education and parents/caregivers.
- Royalty rate - the relief from royalty method assumes a royalty rate of 1%.
- Discount rates – the assumptions relating to discount rates are discussed above.
- Long term growth rate – terminal growth rates have been discussed above.

The recovery amount of brands will equal its carrying amount if any one of the key assumptions change to the following, under the assumption that all other factors remain constant:

Revenue growth (% per annum on average)	-34.50%
Royalty rate (% per annum on average)	0.70%
Pre-tax discount rates (%)	22.30%
Long term growth rate (%)	-2.80%

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14. Trade and Other Payables

$'000	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Trade payables	1,506	877
Amounts accrued in respect of business combinations	-	203
Goods and services tax payable	5,550	5,324
Other payable	2,963	3,972
Total trade and other payables	10,019	10,376

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amount of trade and other payables are considered to be same as their fair values, due to their short term nature.

15. Funding Received in Advance

Represents Ministry of Education funding received in advance net of amounts owing but not received. The amount is shown as a current liability consistent with the period the funding covers. Funding is received three times per year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead. At 31 March 2018 funding received in advance relates to April to June 2018. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of February and March 2018.

$'000	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Funding received in advance	21,474	21,853
Funding receivable	(3,610)	(3,801)
Total funding received in advance	17,864	18,052

16. Employee Entitlements

$'000	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Employee leave provisions	3,069	2,999
Accrued wages and salaries	3,547	3,363
Other employee entitlements	220	220
Total Total employee entitlements	6,836	6,582

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17. Issued Capital

Authorised shares

	31 MARCH 2018		31 MARCH 2017	
	Number	$'000	Number	$'000
Ordinary shares authorised, issued and fully paid				
Opening balance	178,281,256	158,106	177,579,018	157,364
Ordinary shares issued:				
Issue of shares in relation to dividend reinvestment plan ("DRP")	1,179,340	1,058	702,238	655
Less share issue costs relating to shares issued under DRP	-	(15)	-	(12)
Executive share based payment	-	-	-	99
Closing balance	**179,460,596**	**159,149**	**178,281,256**	**158,106**

18. Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital and deficits/accumulated profits of the Group as well as available cash and cash equivalents. The Board of Directors monitors the return on capital as well as the level of cash and dividends to ordinary shareholders.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of any financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Dividend Policy

The current dividend policy of the Group is to pay dividends between 40% and 60% of net profit after tax in respect of the preceding period subject to the discretion of the Board.

Financial Covenants

The Group's capital management, amongst other things, aims to ensure that it meets its financial covenants attached to any interest bearing loans and borrowings that define capital structure requirements. The specific covenants relating to financial ratios the Group is required to meet are:

- Gearing ratio (i.e. net debt to EBITDA)
- Fixed cover charges ratio (i.e. EBIT plus lease expense to lease expenses plus net interest)

Breaches in meeting the financial covenants could permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current or prior period.

19. Dividends

Dividends paid during the year	2018	2017	2018	2017
	Cents per share	Cents per share	$'000	$'000
Interim dividend for the year ended 31 March 2018	2.50		4,455	
Final dividend for the year ended 31 March 2017	2.50		4,471	
Interim dividend for the year ended 31 March 2017		2.50		4,451
Final dividend for the year ended 31 March 2016		2.38		4,226
	5.00	**4.88**	**8,926**	**8,677**

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19. Dividends (continued)

Policies

Dividends are paid in cash in accordance with the dividend policy of the Group. The dividends paid were fully imputed.

Supplementary dividends

Supplementary dividends of $0.4m (2017: $0.6m) were paid to shareholders not tax resident in New Zealand on which the Company received a foreign investor tax credit entitlement.

Dividend reinvestment plan

Under the Company's dividend reinvestment plan, holders of ordinary shares may elect to reinvest the net proceeds of cash dividends payable or credited to acquire further fully paid ordinary shares in the Company. In respect of the year ended 31 March 2018, 1,179,340 shares with a total value of $1.1m were issued in lieu of cash dividends (2017: $0.7m).

20. Earnings Per Share (EPS)

Basic and diluted EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The following reflects the income and share data used in the basic and diluted EPS computations:

	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
(Loss)/Profit attributed to ordinary equity holders of the parent ($'000s)	(4,213)	15,873
Weighted average number of ordinary shares for basic and diluted EPS	178,948,343	178,007,882
Basic (and diluted) earnings per share (expressed as cents per share)	(2.4)	8.9

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

21. Financial Assets and Liabilities

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall level of financial risk is minimal and risk management is carried out by senior finance executives and the Board of Directors.

Market risk

Foreign currency risk

The Group is not exposed to any significant foreign currency risk.

Price risk

The Group is not currently exposed to any significant price risk.

21. Financial Assets and Liabilities (continued)

Interest rate risk

The Group's main interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The effective interest rate for the current year is 4.06% (2017: 4.42%). An increase or decrease of ±1% in interest rates will result in a ±$405K (2017: ±$309K) effect on profit/ loss before tax.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents as well as the use of loans. At balance date the Group had drawn $32.3m (2017: $20.2m) of the Group's $90.0m lending facilities exposing the Group to interest rate risk. Exposure to interest rate risk is reduced by applying surplus cash against borrowings until such time that the cash is required. This significantly reduces the company's average drawn debt balance during the year.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provision for impairment of those assets, as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements. The Group has no significant credit risk exposure. The Standard & Poors credit ratings of the banks where the Group holds cash are all [AA-] (source: www.rbnz.govt.nz).

Liquidity risk

Liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

The Group's financing arrangements comprise the following facilities:

- **Senior revolving facility** - provided by ASB totalling $30.0 million for general corporate and working capital purposes. The facility expires on 30 April 2019. Subsequent to balance date, this facility has been amended and extended to 30 April 2022 (Note 27).
- **Acquisition facility** - provided by ASB totalling $60.0 million for funding of future acquisitions. It expires on 30 April 2019. Subsequent to balance date, this facility has been amended and extended to 30 April 2022 (Note 27).
- **Lease guarantee facility** - provided by ASB for $3.0 million for bonds required for certain leasehold properties.

The facilities are secured by way of a first ranking general security agreement over all present and future assets and undertakings of the Group, together with an all obligations cross guarantee and indemnity. The Group was in compliance with all bank covenants during the period.

21. Financial Assets and Liabilities (continued)

Amounts drawn against the senior revolving and acquisition facilities are:

$'000	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Facility Limits		
Senior revolving facility	30,000	30,000
Acquisition facility	60,000	60,000
Total lending facilities	**90,000**	**90,000**
Utilisation		
Senior revolving facility	-	-
Acquisition facility	32,300	20,200
Total borrowings	**32,300**	**20,200**
Total unused facilities	**57,700**	**69,800**

The terms of the acquisition facility allow the Group to temporarily apply surplus cash against drawings under the facility to ensure efficient use of cash during the working capital cycle. Cash applied against the facility in this manner is available to be redrawn.

Remaining contractual maturities

The contractual maturity for the Group's financial instrument liabilities (that is, trade payables) is disclosed at Note 14 and in terms of bank borrowings, above. The contractual maturities are based on the undiscounted cash flows of financial liabilities based on the expiry of the facility.

Fair value of financial instruments

The carrying value of financial assets and financial liabilities presented represent a reasonable approximation of fair value.

22. Net Debt Reconciliation

This sets out an analysis of net debt movement for the current year:

$'000	Cash and cash equivalents	Borrowings due after 1 year	Total
Net debt as at 1 April 2017	**4,095**	**(20,200)**	**(16,105)**
Bank borrowings drawn	-	(117,500)	(117,500)
Bank borrowings repaid	-	105,400	105,400
Cash flows	1,267	-	1,267
Net debt as at 31 March 2018	**5,362**	**(32,300)**	**(26,938)**

Net debt as defined in the financial covenants (note 18) also includes any amounts utilised under the Group's lease guarantee facility (note 24).

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23. Reconciliation of (Loss)/Profit After Tax to Net Operating Cash Flows

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
(Loss)/Profit after tax	(4,213)	15,873
Adjustments for:		
Depreciation and amortisation	3,241	2,629
Impairment expense	13,890	-
Loss on disposal	134	-
Finance expense	1,641	1,366
Deferred tax	(796)	64
Changes in operating assets and liabilities:		
Working capital movements:		
Increase/(decrease) in funding received in advance	(188)	1,734
(Increase)/decrease in other current assets	136	(611)
Increase/(decrease) in trade and other payables	(357)	1,963
(Increase)/decrease in current income tax receivables	(552)	-
Increase/(decrease) in current income tax liabilities	(841)	(445)
Increase/(decrease) in PORSE GST settlement payable	1,500	-
Increase/(decrease) in employee entitlements	254	510
Other items:		
Business combination payment classified as investing	467	(533)
Net cash flows from operating activities	**14,316**	**22,550**

24. Commitments and Contingencies

Operating lease commitments - Group as lessee

The Group has entered into commercial leases on its premises, motor vehicles and IT equipment. Future minimum rentals payable under non-cancellable leases at balance date are:

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Within one year	21,224	20,500
After one year but not more than five years	63,583	62,004
More than five years	53,880	51,179
Total	**138,687**	**133,683**

Guarantees

$2,385,870 (2017: $2,325,915) of the lease guarantee facility disclosed in Note 21 has been utilised.

25. Related Party Transactions

Parent entity

Evolve Education Group Limited is the parent entity.

Identity of Related Parties

Related parties of the Group are:

- The Board of Directors comprising Norah Barlow, Alistair Ryan, Grainne Troute (appointed 1st May 2017), Anthony Quirk (appointed 2nd August 2017), Lynda Reid (appointed 2nd August 2017) and Mark Finlay (ceased his directorship 17th August 2017).
- Mark Finlay was appointed Chief Executive Officer on 1st November 2017 and had been acting in this capacity since 25th August 2017.
- LEP Limited, LEDC Limited, LEP Construction Limited, LEP1 Limited, LEP2 Limited, LEDC1 Limited, Little Wonders Childcare (Aoraki) Limited, Little Wonders Childcare (Timaru) Limited, Little Wonders Childcare (Cromwell) Limited, Little Wonders Childcare (St Kilda) Limited, Little Wonders Childcare (Roslyn) Limited, Little Wonders Childcare (Oamaru) Limited, and Wildfire Consultants Limited, companies that are all associated with Mark Finlay.

Related party transactions and related party relationships that have ceased during the current year or in the prior year are:

- Greg Kern ceased his directorship on 17th August 2017.
- Kern Group (Paddington) Pty Limited and Kern Group NZ Limited, companies associated with Greg Kern.
- Alan Wham resigned as Chief Executive Officer on 15th September 2017.
- Shares issued pursuant to the Company's dividend reinvestment plan to Alan Wham (2018: 14,056 shares valued at $13,714, 2017: 27,214 shares valued at $25,857)
- Vivek Singh ceased to be key management personnel in June 2016.

Related party transactions arising during the year:

- Transactions between the Company and its Directors, members of its key management and certain employees can be summarised as follows:
  - **Directors' remuneration -** The Directors' fees pool is currently $500,000 per annum (plus GST, if any), with the amount of fees paid during the period disclosed in the table below. The Directors are also entitled to be paid for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or Shareholder meetings, or otherwise in connection with the Group's business. Mark Finlay, the Group's Chief Executive Officer, no longer receives directors' fees following his cessation of his directorship on 17th August 2017.

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Alistair Ryan	128	90
Norah Barlow	90	135
Grainne Troute	82	-
Anthony Quirk	56	-
Lynda Reid	53	-
Greg Kern	37	80
Mark Finlay	33	80
Total Directors' Remuneration	**479**	**385**

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25. Related Parties Transactions (continued)

Related party transactions arising during the year (continued):

- **Directors' indemnity and insurance** – the Company has entered into a Deed of Indemnity and Access by Deed Poll under which it has granted indemnities in favour of, and maintains insurance for, its present and future directors' (and directors' of related companies) and certain employees of the Company, in each case to the extent permitted by the Companies Act 1993, the Securities Act 1978 and the Financial Markets Conduct Act 2013.
- **Other transactions with parties related to the Directors' of the Group:**
  - Companies associated with Mark Finlay are the landlord of the Group's head office and fourteen of the Group's ECE centres. Rent of $2,208,000 (2017: $1,161,000 relating to six ECE centres and the head office) has been paid by the Group to the companies associated with Mark Finlay during the period. To facilitate the acquisition of six centre businesses in the year ended 31 March 2018, Mark Finlay and associated interests, acquired the premises out of which these businesses operate and lease these premises to the Group. A further commitment to make future rent payments of $24,235,000 (2017: $3,942,00) over the next 2 to 12 years (depending on the term of each lease) is included in Note 24.
  - Management fee income received from centres related to Mark Finlay of $17,500 (2017: $72,698).
  - Fees for services other than rent paid to various companies related to Mark Finlay were $68,872 (2017: $74,516).
  - Dividends of $1,067,000 (2017: $1,042,000) were paid to Mark Finlay.
  - Shares were issued pursuant to the company's dividend reinvestment plan to Alan Wham (14,056 shares valued at $13,714), Alistair Ryan and Norah Barlow (4,641 shares each valued at $4,038 each).
  - On 1 September 2017, the Group acquired one centre from LEDC Limited, a company that Mark Finlay is a director of and shareholder in, for $1,600,000.
  - As at balance date, the Group had committed to the lease of two new development centres where LEP2 Limited, a company associated to Mark Finlay, will be the landlord.
- **Compensation of key management personnel of the Group:**

$'000	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Short-term employee benefits	1,000	865
Total compensation paid to key management personnel	**1,000**	**865**

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

evolve education group

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

25. Related Parties Transactions (continued)

Related party transactions arising during the year (continued):

- **Shareholding interests of Directors and key management of the Company are:**

	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Units of shares		
Mark Finlay	21,347,382	21,347,382
Norah Barlow	90,390	85,749
Alistair Ryan	90,390	85,749
Kern Group NZ Limited & Gregory Kern	-	2,347,808
Alan Wham	-	589,518
Vivek Singh	-	321,555
	21,528,162	**24,777,761**

During the year Norah Barlow and Alistair Ryan increased their shareholdings via electing to receive shares under the Group's dividend reinvestment plan.

26. Auditor's Remuneration

During the year the following fees were paid or payable for services provided by the Group's auditor, PricewaterhouseCoopers:

	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
$'000		
Audit services:		
Audit of Group consolidated financial statements	183	175
Porse assurance engagements	30	30
Total audit services	**213**	**205**
Other services provided by PricewaterhouseCoopers:		
Taxation compliance services	40	43
Consultancy services	-	8
Total other services	**40**	**51**

In the prior year, consultancy services relate to advice regarding executive remuneration.

27. Events After the Reporting Period

Dividend

On 28 May 2018 the Board approved a fully imputed final dividend of $3.6m or 2.0 cents per share in respect of the year ended 31 March 2018. The dividend is payable on 28 June 2018.

Sale of Porse

Subsequent to balance date, the Company decided that it will commence a sale process for the Company's wholly-owned Porse in-home childcare and training business.

Financing Arrangements

Subsequent to balance date the terms of the financing arrangements provided by ASB were amended. The key changes are as

- The Senior Revolving facility totalling $30.0m was amended to $25.0m.
- The Acquisition facility totalling $60.0m was amended to $70.0m.
- The expiry date of the facilities was extended from 20 April 2019 to 30 April 2022.

CEO Appointment

On 27 May 2018 Roseanne Graham was appointed to the position of Chief Executive Officer of the Company, replacing Mark Finlay at a date to be agreed.

Independent auditor's report

To the shareholders of Evolve Education Group Limited

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 March 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of movements in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Evolve Education Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of other audit related assurance engagements, agreed procedures over prudential financial reporting and tax compliance services. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: $1.0 million, which represents approximately 5% of a 3-year average profit before tax adjusted for impairment and the Porse GST settlement in the year ended 31 March 2018.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users. We have excluded impairment losses recognised and the one-off Porse GST settlement, as these are non-recurring items that are not part of normal business operations. We applied a 3-year average of profit before tax due to the volatility experienced in the Group's earnings over this time, arising from acquisition activity and fluctuations in operational performance.

We have determined that there is only one key audit matter being the impairment assessment of goodwill.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters are addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

pwc

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill As disclosed in Note 12, the Group has goodwill of \$203.3 million as at 31 March 2018, which was recognised on business acquisitions in the current and prior years. Of this balance, \$202.6 million relates to the ECE Centres cash-generating unit (CGU). During the year, the Group fully impaired the goodwill balance of \$10.6 million in the Home-based ECE business due to underperformance and a continued decline in child enrolments for this CGU. Our audit focused on assessing the carrying value of the goodwill in the ECE Centres CGU due to the judgements and estimates that are involved in determining whether the recoverable amount of the CGU exceeds the carrying value of the CGU's assets and liabilities. In determining the recoverable amount management use a discounted cash flow model on a value-in-use basis. Management considers the recoverable amount calculations are most sensitive to the following key assumptions: • Revenue growth from enrolment and price changes through the forecast period; • Expense growth through the forecast period; • Discount rate; and • Growth rates used to extrapolate cash flows beyond the forecast period. Refer to note 13 of the consolidated financial statements where impairment testing of goodwill is discussed, including the impact on the recoverable amount from small changes in the enrolment and price growth assumptions.	The assessment of goodwill involves significant judgement. We tested management's value-in-use calculations including the inputs and mathematical accuracy of the model and compared it to the relevant net asset value of the CGU. We also assessed the key estimates and assumptions made by management as follows: • Gained an understanding of the business process applied by management in determining whether there are any indicators of impairment in the value of goodwill; • Obtained an understanding of management's forecasting and budgeting process and reviewed the past years' actual performance against budget performance to determine the rigor and accuracy of the budgeting process; • Where appropriate, we understood the key changes between the performance for the year to 31 March 2018 and the budget for the year ending 31 March 2019, in particular key movements in revenue and expenses. We considered these based on: past performance; subsequent changes that have been made within the business; and the increased levels of ECE funding announced by the New Zealand Government on 17 May 2018, effective from 1 January 2019; • Reviewed management's sensitivity analysis over the key assumptions and also considered alternative possible scenarios and their potential impact; • Engaged our internal valuation expert to assess the terminal growth rates and discount rates used against those used by similar market participants and determine whether the rates were within a reasonable range, and • Considered whether the disclosures in the consolidated financial statements were in compliance with the requirements of the accounting standards. Based on the results of our procedures we have nothing to report.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, 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 to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are 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 ISAs NZ and ISAs 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 these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Richard Day.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 May 2018

Auckland

Financial Results - Year Ended 31 March 2018

Investor Presentation

evolve
education group

Agenda

Overview of FY18 Performance

Overview of FY18 Performance

FY18 has been a challenging year for the business

- 4 successive years of flat Government funding continued to compress margins
- Occupancy fell by 2% at the start of FY18 due to lower new enrolments and child retention
- Evolve responded to lower occupancy by targeting occupancy growth in favour of reducing staff hours, with a view to preserving capacity
- A challenging acquisition market, and lessons learned from the integration of previous acquisitions, have meant a reduced focus on acquisitions in the near term

We are focused on operational improvement within the existing portfolio to recover earnings

- Improve occupancy over the coming one to two years
- Lift staff engagement and retention
- Return to previous levels of staffing/enrolments
- Address underperforming sites with remedial action

New centre developments have met expectations and will provide strong organic growth until acquisition prices for high quality centres return to acceptable levels

Evolve is undergoing a period of transition and consolidation

Initial Phase: FY15-FY17

New centre acquisition strategy

NZX/ASX listing

60 separate brands

Existing centre management teams brought into Evolve team

Transition Phase: FY18-FY19

Brand consolidation from 60 to 6 brands

Standardising systems to ensure a consistent customer experience

Growing regional and centre management capability

New centre development

Future Phase: FY20+

Driving Occupancy:

- Lifting teacher engagement
- Enhanced customer experience driving loyalty and reducing churn
- Improving our ECE centres – enhanced maintenance and quality programmes

Growth through mix of newly developed and acquired centres

FY18 Financial Results

FY18 Result Summary

NZ$000	FY 2018	FY 2017	% Change
Total Income	**158,953**	**151,623**	4.8%
EBITDA (underlying)[1]	21,631	27,591	-21.6%
Net Profit Before Tax and Non-Recurring Items	**16,655**	**22,362**	-25.5%
Less: Porse GST provision[2]	(3,000)	-	
Less: Impairment expense[3]	(13,890)	-	
Net Profit/Loss Before Tax	**(235)**	**22,362**	N/M
Less Tax	(3,978)	(6,489)	-38.7%
Net Profit/Loss After Tax	**(4,213)**	**15,873**	N/M
Net Profit After Tax and Before Non-Recurring Items[4]	**12,024**	**15,873**	-24.2%
Basic (and diluted) earnings per share (cps)	**(2.4)**	**8.9**	N/M
Fully imputed interim dividend (cps)	2.0	2.5	-20.0%

[1] EBITDA (underlying) is EBITDA before Porse GST provision, the after-tax impairment expense of $13.2 million relating to the Home-Based Division and the closure of one early childhood education centre, acquisition and integration costs. Refer to Appendix A for further detail. EBITDA is a non-GAAP measure and is not prepared in accordance with NZ IFRS. This measure is intended to supplement NZ GAAP measures presented in Evolve Group financial statements, should not be considered in isolation and is not a substitute for those measures

[2] Expense to settle the historic PORSE GST matter, a non-recurring expense

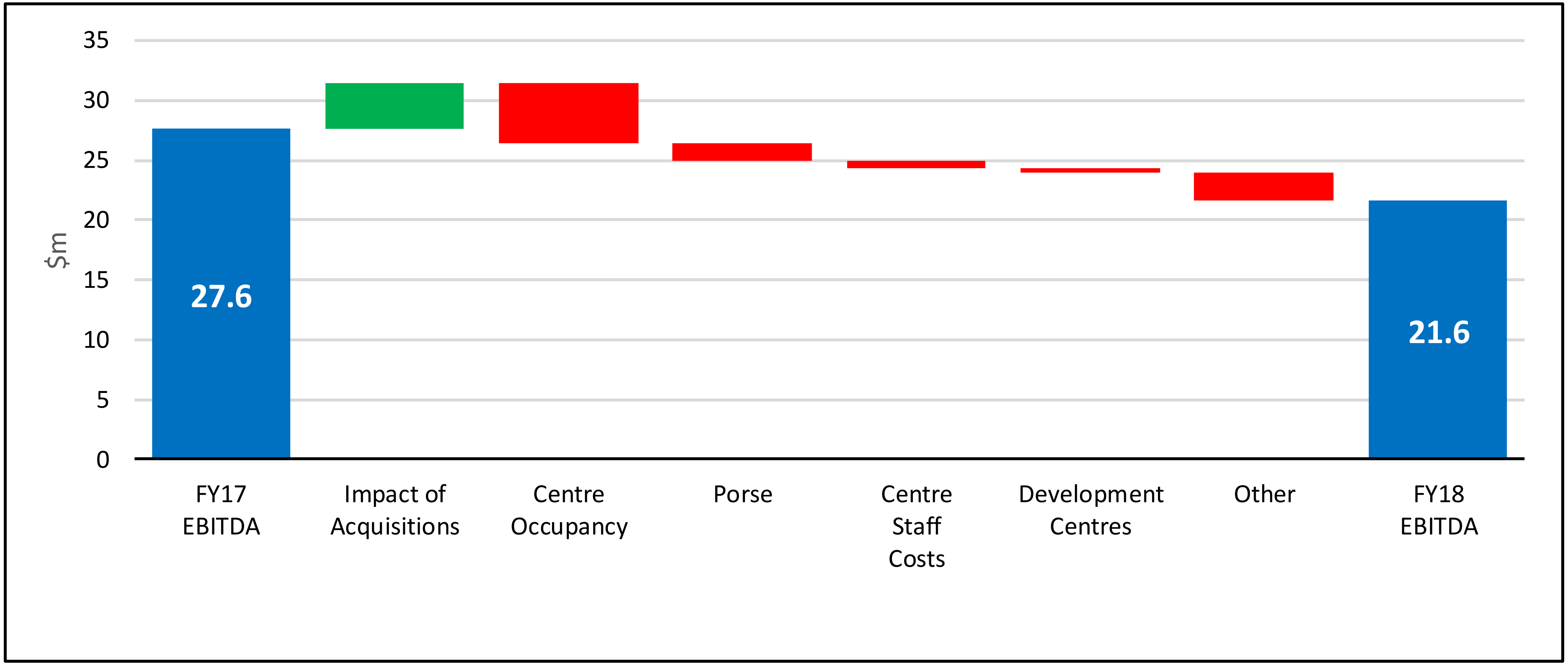
[3] Impairment expense of $13,890 less tax benefit of $653, in respect of Home-Based Division and one ECE Centre

[4] Refer to Appendix for reconciliation

FY18 Financial Result Commentary

- Net Profit After Tax before non-recurring items of $12.0m
- Net Loss after Tax $4.2m, after non-recurring items, being Porse GST settlement expense of $3.0m and non-cash impairment charge of $13.2m
- Total income increased by $7.3m (4.8%) of which $15.3m is due to the Centre acquisition programme, offset by a decline in enrolments in both Centres and Home-Based Divisions
- Occupancy in the Centres division was 2% lower, on average, on a comparable basis (i.e. same-centre occupancy)
- Enrolments in Home-Based were also lower than the prior year
- Three development centres impacted earnings due to start-up costs in the period: EBITDA losses of $499k were anticipated and in line with budget
- Final dividend of 2.0cps, as previously indicated to the market.

EBITDA movement: FY17 to FY18



Lower centre average occupancy rates were the main cause for the reduction in earnings in FY18

Segment Results

NZ$000	FY 2018	FY 2017	Change
Income			
Mature Centres	137,203	126,399	10,804
Development Centres	796	120	676
Total Centres	137,999	126,519	11,480
Home-based	20,558	24,060	(3,502)
Other income	396	1,044	(648)
Total income	**158,953**	**151,623**	7,330
EBITDA (underlying)			
Mature Centres	28,504	31,130	(2,626)
Development Centres[1]	(499)	(153)	(346)
Total Centres	28,005	30,977	(2,972)
Home-based	881	2,611	(1,730)
Corporate costs	(7,255)	(5,997)	(1,258)
EBITDA (underlying)[2]	**21,631**	**27,591**	(5,960)
EBITDA (underlying) margin %	**13.6%**	**18.2%**	

[1] During the period there were three (FY17: one) development centres operating in start-up phase.

[2] EBITDA (underlying) is EBITDA before Impairment Expense, Porse GST provision, acquisition and integration costs. Refer to Appendix A for further detail.

Centre Metrics

	Acquired by March 16		FY17 Acquisitions		FY18 Acquisitions
	FY18	FY17	FY18	FY17	FY18
Centres - period end	104	105	15	15	7
ECE licensed places – period end	7,142	7,163	1,162	1,162	625
Occupancy - average	80%	82%	69%	67%	75%
Employee expenses/revenue	53.8%	51.4%	58.5%	57.4%	58.5%
Underlying EBITDA Margin%	21.6%	25.2%	14.9%	15.6%	17.3%

- Data presented excludes 3 Development Centres – refer slide 28
- Occupancy on a same centre basis was 2% lower than the prior year for FY18
- Occupancy on the FY17 acquisitions has remained largely unchanged, after taking into account the phasing of acquisitions in FY17
- Occupancy on the FY18 acquisitions has remained largely unchanged since the date of acquisition, no material short term decline in the integration months
- Decline in occupancy did not lead to any overall change in staffing cost so lifting the employee expenses to revenue ratios, the primary reason for the decline in EBITDA margins.

Impairments

- Declining enrolments since the date of acquisition by the Group have reduced the revenue and profitability of the Home-Based Division.
- An impairment charge of $12.9m is reflected in the FY18 result to write off the non-current assets (primarily intangible assets) of the Division.
- The impairment is in accordance with financial reporting standards, and does not necessarily reflect the company's assessment of realisable value. It is anticipated that some part of the impaired asset value will be recovered through the sales process, though this amount cannot be reliably estimated at balance date.
- Further $1.0m of goodwill associated with the centres division was written off following the merger of 2 centres.

FY18 Impairment Charge	
Reduction in carrying value of Home-Based business	(12.9)
Goodwill write off following merger of 2 centres	(1.0)
	(13.9)
Less tax benefit	0.7
Net Impairment Charge after Tax	**(13.2)**

Balance Sheet / Funding

- Underlying gearing ratio (Net Debt: EBITDA) of 1.24 as at 31 March 2018
- Debt facility was renewed post year-end to provide a $70m acquisition facility and $25m working capital facility through to April 2022. Overall increase of $5m in funding lines.
- $60m of the acquisition facility has been utilised during the post-IPO acquisition programme, leaving $10m available, over and above retained cash
- Evolve is forecast to remain well within its banking covenants

FY 19 Priorities

Evolve's strategic objectives remain unchanged

While FY18 has proved to be a challenging year for Evolve, our goals remain largely unchanged from those established at the time of listing:

- Be a leader in the strong demand Early Childhood Education sector in New Zealand
- Achieve the competitive benefits of a scale operator in a largely fragmented industry
- Continue to expand through measured acquisition of centres
- Undertake new purpose-built, purpose-located developments
- Maintain a level of profitability to provide a strong flow of funds for reinvestment in the business, whilst maintaining a 40%-60% dividend return to shareholders.

The sale process for the in-home childcare business (Porse) has commenced, following a strategic review which concluded the business was non-core and presented limited overlap with the ECE centres.

FY19 Priorities

We are focused on a two pronged strategy – stabilising the existing business through operational performance improvements and pursuing opportunities for portfolio growth and active centre portfolio management.

Operational performance

- Improve occupancy
- Improve engagement and retention of centre staff
- Re-balance teacher: child cost ratios
- Improve ECE centre support services e.g. Property Maintenance

Active growth initiatives

- Leasehold developments
- Active centre portfolio management

Occupancy

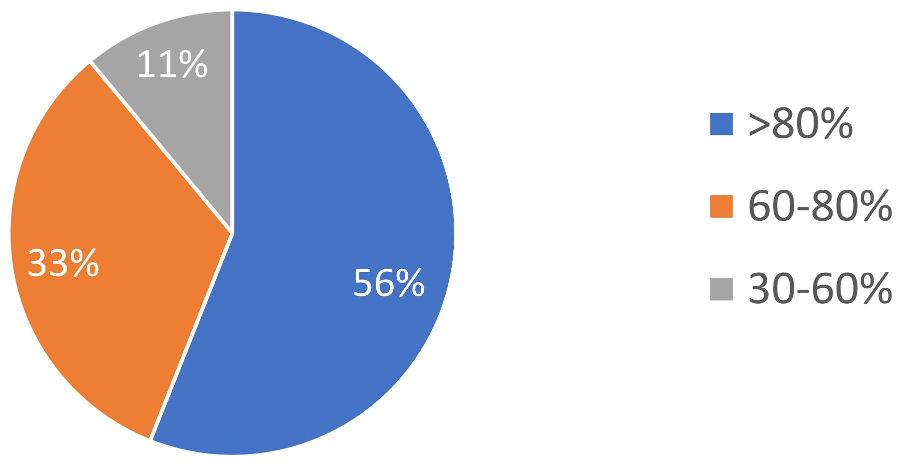
Occupancy Trends

Overall occupancy was 2% lower than FY17 on a like for like basis (i.e. the 104 centres owned throughout FY17 and FY18):

- 38% of centres gained occupancy – an average of +9%
- 62% of centres declined in occupancy – an average of -8%

The majority of centres continue to have strong occupancy. 56% of mature centres have occupancy above 80% (averaging 93%);

Ocupancy Rates



Driving occupancy

The key drivers of occupancy are:

- The engagement and retention of ECE centre staff
- A consistent and high quality service experience for parents and children
- Well-maintained and equipped ECE centres

Actions underway or proposed:

- We have established a central enrolments team to co-ordinate the enrolment process, and ensure that all leads are followed up
- We have ensured that we are price competitive in areas of high competition, particularly during the key enrolment period of January to March
- We have increased investment in a co-ordinated digital marketing strategy
- We will be surveying departing parents to identify service improvement opportunities

People and culture

People & Culture

The success of Evolve depends on engagement and retention of its teaching staff and centre management team

- Retention and engagement of teaching staff is the key driver of occupancy
- As a scale operator it is important that Evolve differentiates itself as an employer in the ECE sector
- There is significantly more that we can do in this regard

Over the coming year our initial actions to improve this aspect will include:

- Further developing a targeted Professional and Career Development programme for centre managers and teachers
- Using our scale to improve the working experience of our teachers and centre managers. As a first step we will establish a property maintenance management function to assume this responsibility on behalf of our centre staff in the first half of FY19
- Improving the quality and focus of internal communications
- Providing greater support from the corporate office around recruitment and staff deployment

Re-balance Costs

In FY18 wage/revenue % on a like for like basis increased from 51.4% to 53.8% as we held staffing levels despite the reduction in occupancy in anticipation of higher enrolments

To re-balance costs to industry benchmark levels, we will implement the following in FY19:

- Proactive management of staff costs on a centre by centre basis - by lifting the commercial focus of centre management
- Rostering system – evaluation and implementation of a system that is easy to use and configured to the requirements of a multi-centre New Zealand ECE group
- To improve management of our existing internal pool of relieving staff, we will use Staff Sync software to provide improved reliever options to centre managers. This should reduce the need to use expensive agency-provided staff

Addressing under-performing centres

Addressing under-performing centres

14 centres have occupancy rates of between 30% and 60%

11 centres generated an EBITDA loss in FY18, totalling $0.5m:

- 1 centre was merged with another subsequent to balance date, to address persistent low occupancy challenges of both sites

- The others have been reviewed, the causes of low occupancy pin-pointed, and remediation plans have been initiated

- It is anticipated that the remaining 10 loss making centres can be brought back to profitability during FY19


Acquisitions / Developments

Acquisitions

- Lack of quality opportunities at attractive prices has reduced our current focus on the acquisitions market
- Evolve’s acquisition bank facility of $60m has been substantially drawn, with $10m added to the facility subsequent to year end providing headroom of $10m
- Vendor pricing expectations have shown some signs of reducing, though still inflated
- Over time the acquisition market is expected to re-set and allow further expansion through select acquisition
- We will continue to explore acquisitions that meet our criteria and reflect sensible valuation metrics.

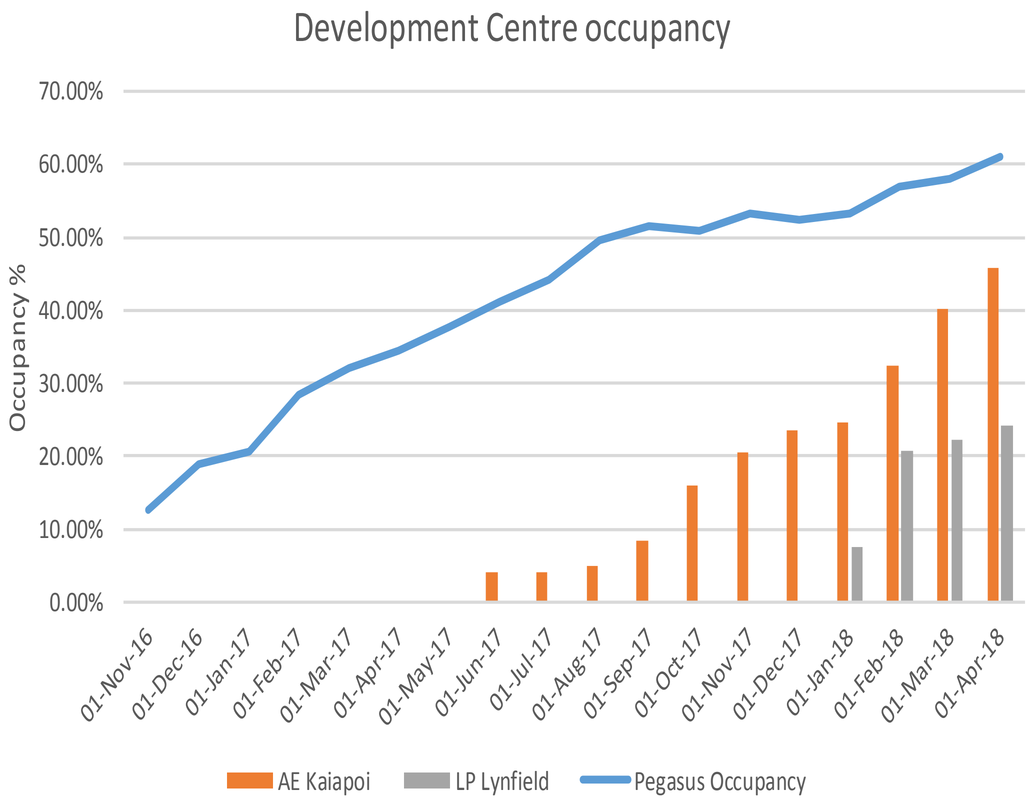
Developments

3 development centres have been successfully opened in the past 18 months

Average of 80 licensed places per centre, slightly above portfolio average of 70

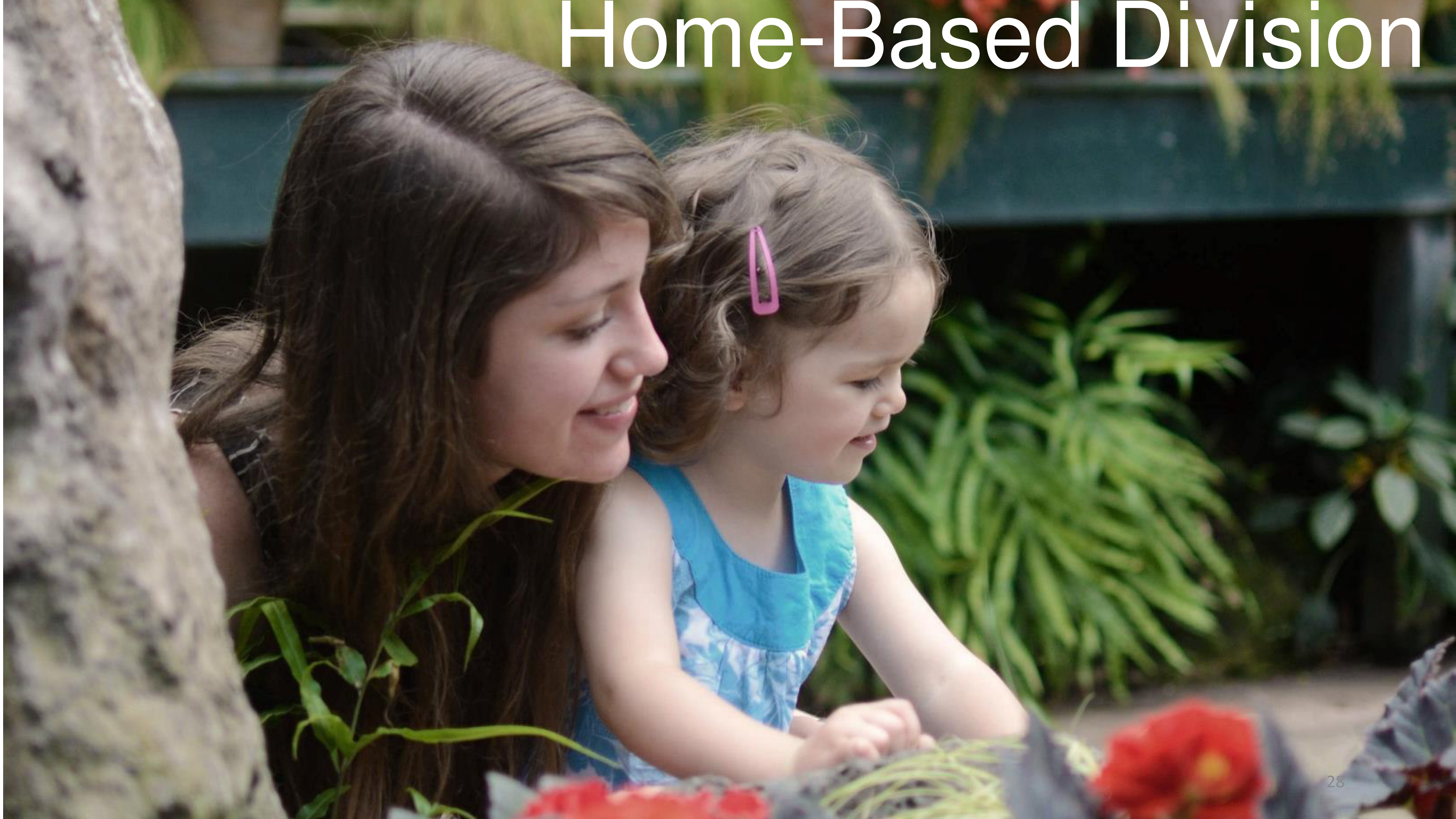
4 more signed up to open during FY19:

- Papakura
- Napier
- Mt Wellington
- Helensville



Two of the three trading centres have exceeded 50% occupancy and are anticipated to reach financial breakeven imminently. Cumulative trading loss of $649k vs projected mature annual EBITDA of $430k for the three trading centres.

Home-Based Division



Home-Based Division

- The market for home based ECE services continues to attract new participants. Both Porse and Au Pair Link continue to hold segment-leading positions, however, enrolments - which drive revenue - have declined 15% vs FY17
- It has not been possible to maintain EBITDA through cost saving in the face of a 15% decline in revenues and EBITDA has declined to $0.9m in FY18 from $2.6m last year
- As a result of this ongoing market trend the book value of the Home Based Division has been reducing, giving rise to an FY18 pre-tax impairment charge of $12.9m
- The impairment is in accordance with financial reporting standards, and does not necessarily reflect the company's assessment of realisable value.
- Evolve has decided to explore alternative ownership options for Porse. It is anticipated that some part of the impaired asset value will be recovered through the sales process, though this amount cannot be reliably estimated at balance date.

Government Support

Government support for ECE sector

- 1.6% increase announced for early childhood education centre universal funding in the 2018 Government Budget, beginning in January 2019
- The increase is welcome given that universal funding has been fixed for the past four years and the increase will help to alleviate some of the accumulated cost pressures
- The ECE sector has had to cope with rising costs which have not been offset by commensurate increases in funding from the Government
- The 2018 Budget did not address this historical issue
- It is clearly in New Zealand’s best interests to have an early childcare education sector that is appropriately funded and able to attract and retain qualified and talented teachers. The new Government appears to recognise this requirement but has not been able, in its first Budget, to redress the funding backlog that has disadvantaged the sector over the last four years.
- The Budget announcement will not have a material impact on FY19 earnings because the 1.6% increase in funding has been held back until 1 January 2019, leaving only 3 months impact in FY19.

Outlook

Outlook

We are focused on delivering the following key milestones for FY19:

- Lifting overall occupancy to 79%, from 78%
- Opening 4 new development centres
- Reversing the recent trend of rises in the ratio of staff costs to revenue
- Improving employee engagement and retention
- Turning around the centres that are currently trading unprofitably

Government Budget announcement will not have a material impact on FY19 earnings, with increase in funding not commencing until 1 January 2019. We will be reviewing and implementing parental fee increases now the government funding for 18/19 year has been clarified

Earnings guidance for the year will be provided at the Annual Shareholders' Meeting

New CEO – refer separate announcement

- New CEO appointed: Rosanne Graham
- Mark Finlay will remain as CEO until 30 June, thereafter will act in an advisory capacity supporting strategic initiatives
- Rosanne Graham: strong strategic, people and operational leadership credentials, significant experience/leadership in the private education sector
- Rosanne to take the company to the next level, to implement the changes that have been identified as being required, and to work with the board to chart the strategic vision for the company
- Mark Finlay’s valuable contribution to Evolve acknowledged by the board with appreciation


Appendix

Appendix A – Reconciliation of non-GAAP Financial Information

	Underlying (1) FY18 *$000*	Porse GST provision (2) *$000*	Impairment (3) *$000*	FY18 *$000*	FY17 *$000*
Total Income	158,953			158,953	151,623
Operating expenses	(137,322)	3,000	13,890	(154,212)	(124,032)
EBITDA before acquisition and integration expenses	21,631	3,000	13,890	4,741	27,591
Acquisition expenses	(102)			(102)	(714)
Integration expenses	(39)			(39)	(624)
Depreciation	(2,622)			(2,622)	(2,027)
Amortisation	(619)			(619)	(602)
EBIT	18,249	3,000	13,890	1,359	23,624
Funding costs	(1,594)			(1,594)	(1,262)
Profit before taxation	16,655	3,000	13,890	(235)	22,362
Taxation	(4,631)		(653)	(3,978)	(6,489)
Net Profit After Taxation	12,024	3,000	13,237	(4,213)	15,873

1 Underlying EBITDA excludes the Porse GST settlement expense, impairment expense, acquistion costs of $102k (FY17 $714k) and integration costs of $39k (FY17 $624k) for recently acquired centres, which are expensed for accounting purposes. These represent one-off up-front costs incurred to secure future income streams for the business.

2 $3m expense to settle the historic PORSE GST matter - a non-recurring expense

3 Impairment expense with respect to Home Based ECE division, and closure of one centre

Disclaimer

The information in this presentation is an overview and does not contain all information necessary to make an investment decision. It is intended to constitute a summary of certain information relating to the performance of Evolve Education Group Limited ("Evolve Education") for the year ended 31 March 2018. Please refer to the audited financial statements for the year ended 31 March 2018 that have been simultaneously released with this presentation.

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