Navitas Limited

ABN 69 109 613 309

Half Year Financial Report

31 December 2018

Incorporating the requirements of Appendix 4D

ASX APPENDIX 4D

Results for announcement to the market Report for the half year ended 31 December 2018		
	$m	
Revenues from ordinary activities	477.4	Up 5%
Earnings before interest, tax, depreciation and amortisation (EBITDA)[1]	49.8	Down 25%
Earnings before interest and tax (EBIT)[2]	36.1	Down 31%
Profit after tax from ordinary activities attributable to members	21.4	Down 14%

Dividend information		
	Amount per share (cents)	**Franked amount per share (cents)**
Interim 2019 dividend	nil	nil

Following Navitas' entry into a Process and Confidentiality Deed with the BGH Consortium on 14 January 2019 in relation to the BGH Consortium's non-binding proposal to acquire 100% of the shares in Navitas by way of scheme of arrangement (Scheme) for $5.825 per share (Revised BGH Proposal), which the Navitas Board intends to recommend to shareholders subject to certain developments and conditions (described in Navitas' ASX announcement on 15 January 2019), an interim dividend has not been declared.

Under the current agreement between Navitas and the BGH Consortium, Navitas would be permitted to pay dividends prior to implementation of the Scheme, subject to certain conditions (and with the effect that the amount of any such dividends, excluding the value of any franking credits attached, will be deducted from the offer price payable by the BGH Consortium under the Revised Proposal). With a view to Navitas being able to deliver a fully franked dividend to its shareholders, the Navitas Board has determined to defer declaring any interim dividend (for the period ended 31 December 2018). However, the Navitas Board intends to declare and pay a dividend (of a quantum to be determined) prior to implementation of the Scheme, in order to distribute available franking credits. If the Scheme does not proceed, the Navitas Board would still expect to pay a dividend.

	31 Dec 2018	31 Dec 2017
Net tangible asset backing per ordinary security	(108 cents)	(79 cents)

Additional Appendix 4D disclosure requirements can be found in the directors' report and the 31 December 2018 half year financial statements and accompanying notes.

This report is based on the consolidated half year financial statements which have been reviewed by the Company's auditors.

This information, comprising the information required by Listing Rule 4.2A, should be read in conjunction with Navitas Limited's 2018 Annual Report available on Navitas' website, www.navitas.com.

All comparisons are with the reported results for the six months ended 31 December 2017.

Note
[1] *EBITDA is defined as earnings before interest, taxes, depreciation, amortisation, impairments and non-operating gains or losses. EBITDA excludes the share of results of equity accounted investments in joint ventures.*
[2] *EBIT excludes share of net profit/(loss) of entities accounted for using the equity method*

ASX ANNOUNCEMENT

5 February 2019

REVENUE AND EBITDA GROWTH IN CONTINUING BUSINESS FOLLOWING RATIONALISATION OF CAREERS AND INDUSTRY DIVISION

Navitas has reported growth in revenue and Pro forma[1] EBITDA for continuing operations[2] after excluding the non-recurring costs associated with the rationalisation of our Careers and Industry division and the bid advisory fees incurred in response to the BGH Consortium bid.

Key Highlights

Operational

- Excellent student outcomes across all Divisions including University Partnerships pass rates (82%), retention rates (88%) and progression rates (93%);
- Student enrolments up 5.4% in first two semesters in University Partnerships;
- Contract renewals completed with Robert Gordon University in Scotland and Canterbury University in New Zealand;
- Strong business development performance with 3 new college agreements signed with the University of Twente, The Hague University and James Cook University;
- Appointment of experienced new CEO for University Partnerships North America; and
- Strong growth in SAE following closure of underperforming businesses.

Financial

- Statutory Group revenue increased 5% compared to HY18, with Pro forma[1] EBITDA down 24%;
- On a continuing operations[2] basis, Pro forma[1] EBITDA of $73.6m is in line with recent market guidance of between $148m and $153m in FY19
- University Partnerships Revenue increased by 6% with a 21% EBITDA margin;
- The SAE continuing operations[2] improved EBITDA margin to 18% from 16% in HY18;
- NPAT of $21.4m, including $13.8m of bid advisory fees and other expenses incurred in connection with the BGH proposals;
- Operating cash flow of $37.5m impacted by costs of closing discontinued businesses; and
- No interim dividend declared in respect of the six months ended 31 December 2018. The Board intends to declare and pay a dividend (of an amount to be determined) prior to implementation of the Scheme, in order to distribute available franking credits.

Navitas Group Chief Executive Officer, David Buckingham, said:

“Student outcomes remain the cornerstone of our business and I’m very pleased that we have continued to deliver strong academic and experience outcomes to our students and partners.”

“Our University Partnerships operations performed strongly in the first half, particularly in our Canadian and United Kingdom operations as we continue to recruit strongly across the globe and expand our college pipeline. The performance of the Careers and Industry Division has benefited from the decision to rationalise our US SAE portfolio and close a number of unprofitable operations. We are on track to achieve our FY19 EBITDA guidance issued at our recent AGM.”

“The business outlook is positive with global demand for education and training remaining strong and providing Navitas with growth opportunities in traditional and emerging fields.”

“The BGH due diligence process continues to progress in accordance with the agreed timeline. We are working hard to mitigate risks of disruption to students, staff and partners as we work towards a binding agreement to confirm and implement the BGH proposal.”

[1] Pro forma EBITDA includes share of Joint Ventures EBITDA
[2] Excludes the trading contribution and closure costs of US SAE closed colleges in LA and San Jose, the Health Skills Australia business and bid advisory fees and other expenses accrued in connection with the BGH proposals

Segment Summary
Divisional EBITDA results are as follows:

$m	Continuing Operations[2]			Reported		
	HY19	HY18	vs pcp (%)	HY19	HY18	vs pcp (%)
Revenue						
UP	315.0	296.9	6%	315.0	296.9	6%
SAE	104.8	92.7	13%	107.3	98.4	9%
PEP	49.6	55.0	(10%)	51.5	58.8	(12%)
Corporate	2.8	2.0	37%	2.8	2.0	37%
Total Revenue	472.2	446.6	6%	476.5	456.1	5%
EBITDA						
UP	67.2	66.2	2%	67.2	66.2	2%
SAE	18.4	14.5	27%	9.2	13.1	(30%)
PEP	6.3	7.2	(12%)	6.7	6.7	(1%)
Corporate – Operating Costs	(19.4)	(19.3)	0%	(19.4)	(19.3)	0%
Corporate – Bid Advisory Fees	-	-	-	(13.8)	-	-
Share of Joint Ventures	1.1	0.6	71%	1.1	0.6	71%
Pro forma[1] EBITDA	73.6	69.1	6%	50.9	67.3	(24%)

University Partnerships Division

The Division delivered high academic outcomes across its University Partnerships colleges with revenue increasing by 6%. Pro forma[1] EBITDA increased by 2% with EBITDA margins of 22% impacted by investment in start up costs for new partners, a new direct channel and additional teaching costs to improve student outcomes in specific colleges. Enrolments were strong in the UK up 16% and in North America up 7% primarily due to demand in Canada. Australia and New Zealand grew enrolments by 2% with student numbers across the rest of the world down 4%.

A strong business development pipeline has resulted in the company's first European colleges with two agreements signed in the Netherlands at the University of Twente, and The Hague University. In addition a third contract was established in Australia with James Cook University. Three further contracts are expected in the second half subject to final commercial negotiations and an additional two possible before the end of the financial year.

Careers and Industry Division

The Division continued to focus on academic outcomes and student experience with students reporting high levels of satisfaction with program and teaching quality. The rationalisation of the division in FY18 resulted in the sale of the majority of Health Skills Australia to Holmesglen with the Brisbane business transferring to Queensland TAFE and the closure of both the LA and San Jose SAE colleges in the US. The sale process for the remainder of the SAE US colleges is ongoing.

SAE's US business improved its performance following reductions in its cost base and solid enrolments into the continuing colleges. However, the lower margin level of these businesses still depressed the overall margin of SAE for HY19.

Navitas Ventures

Navitas Ventures continued to monitor the education technology sector with two further investments made in the period including an increase in our existing investment with a developing online provider and a new investment in a business model for the delivery of remedial programs via an online platform.

Summary

The underlying growth in our University Partnerships colleges and an improved performance in our Careers and Industry division is a positive start following the decisions made in FY18 to rationalise the Careers and Industry portfolio. The renewal of two University Partnerships colleges and establishment of three new partnerships demonstrates the strength of the business development pipeline that supports medium to long term growth.

Navitas' operating businesses are performing in-line with our recent guidance and we anticipate a stronger second half following the larger Australian and New Zealand student enrolments in February 2019.

The Company continues to progress the due diligence process with BGH and to communicate with staff and partners to address any uncertainty about the proposals. The Board intends to recommend the offer to shareholders at the completion of this activity; subject to the BGH Consortium confirming its offer price of $5.825 per Navitas share, as well as the other conditions outlined in Navitas' ASX announcement dated 15 January 2019.

[1] Pro forma EBITDA includes share of Joint Ventures EBITDA
[2] Excludes the trading contribution and closure costs of US SAE closed colleges in LA and San Jose, the Health Skills Australia business and bid advisory fees and other expenses accrued in connection with the BGH proposals

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For further information contact:
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About Navitas
Navitas is a leading global education provider that offers an extensive range of educational services through two major Divisions to students and professionals including university programs, creative media education, professional education, English language training and settlement services. Navitas is a S&P/ASX200 company. Further details about Navitas are available at www.navitas.com

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DIRECTORS' REPORT

Directors

The directors present their report together with the consolidated financial report for the half year ended 31 December 2018 and the review report thereon.

The directors of the Company at any time during or since the end of the half year are:

Name	Role
Tracey Horton	Chairman
David Buckingham	Group Chief Executive Officer and Managing Director (appointed Managing Director on 1 July 2018)
Tony Cipa	Director
Harvey Collins	Director (retired 15 November 2018)
Diana Eilert	Director
Rodney Jones	Director (retired 7 November 2018)
Lisa Paul	Director
David Robb	Director

REVIEW OF OPERATIONS

Financial Summary

A summary of consolidated revenue and results is set out below:

Period ended 31 December **$m**	**2018**	**2017**	**% change**
Group revenue	477.4	456.7	5%
Group EBITDA	49.8	66.7	(25%)
EBIT	36.1	52.5	(31%)
Group NPAT	21.4	25.0	(14%)
Earnings per share (cents)	6.0	6.9	(13%)
Operating cash flow per share (cents)	10.5	11.5	(9%)
Interim dividend (cents, franked)	-	9.4	-

**EBITDA is defined as earnings before interest, taxes, depreciation, amortisation, impairments and non-operating gains or losses. EBITDA excludes the share of results of equity accounted investments in joint ventures.*

Segment Summary

Divisional EBITDA results are as follows:

$m	Continuing Operations[2]			Reported		
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Corporate	2.8	2.0	37%	2.8	2.0	37%
Total Revenue	472.2	446.6	6%	476.5	456.1	5%
EBITDA						
UP	67.2	66.2	2%	67.2	66.2	2%
SAE	18.4	14.5	27%	9.2	13.1	(30%)
PEP	6.3	7.2	(12%)	6.7	6.7	(1%)
Corporate – Operating Costs	(19.4)	(19.3)	0%	(19.4)	(19.3)	0%
Corporate – Bid Advisory Fees	-	-		(13.8)	-	
Share of Joint Ventures	1.1	0.6	71%	1.1	0.6	71%
Pro forma[1] EBITDA	73.6	69.1	6%	50.9	67.3	(24%)

The Group has also recorded contributions from its investments in joint ventures as detailed below.

($m)	Joint Venture (JV) Results		Navitas share of JV results	
Period ended 31 December	**2018**	**2017**	**2018**	**2017**
Operating revenue	**25.4**	19.1	**12.7**	9.6
EBITDA	**2.1**	1.2	**1.1**	0.6
Profit after tax	**1.3**	1.0	**0.6**	0.5

University Partnerships Division

The Division continued to deliver key quality metrics including pass rates of 82%, retention rates of 88% and progression to partner university rates of 93% for the 2018 calendar year. Results from student and graduate surveys also indicate continued high levels of satisfaction with teaching and program quality.

University Partnerships increased revenue 6%, with Pro forma[1] EBITDA including our share of joint ventures increasing by 2%. Enrolment growth was 5.4% across the period from strong demand in the UK and Canada.

Business development for the period was strong with three new partnerships signed and two existing agreements renewed. Two of the new partnerships were in the Netherlands being the University of Twente, and The Hague University with the third contract with James Cook University in Australia. The agreements with Robert Gordon University in Scotland and Canterbury University in New Zealand were renewed.

Careers and Industry Division

SAE continued to focus on academic outcomes and student experience with students reporting high levels of satisfaction with program and teaching quality. Both SAE Australia and ACAP continued to participate in the national Quality Indicators for Learning and Teaching (QILT) surveys. The latest publicly available data reports that ACAP exceeds national averages in quality of educational experience, teaching quality and skills development. In survey results published by the Australian Skills Quality Authority (ASQA), 94% of Navitas Professional graduates and 99% of Navitas English clients said they developed expected skills from their programs.

Following the announcement of a rationalisation of the C&I portfolio at the end of last year the Division has successfully managed the sale of its Health Skills Australia business to Holmesglen and Queensland TAFE and the closure of the Los Angeles and San Jose SAE colleges in the US. The transition of its Indonesia operations to a license model has also occurred, however the closure of its Oxford operations is still pending as we teach out the remaining students.

The Careers and Industry Division continued to be impacted by reduced enrolments at ACAP following reforms to Vocational Education funding in Australia which came into effect in 2017. Adult Migrant English Programs (AMEP) clients were substantially higher in the previous corresponding period due to the large volume of Syrian migrant students which have not occurred in this period. The continuing operations of our US SAE business have seen an improved performance following reductions in costs and increased student demand as a number of our competitors have exited the sector. As a result of these changes, the Division's continuing operations have grown revenues by 5%, and EBITDA by 14%. EBITDA margins have also improved to 16%.

[1] Pro forma EBITDA includes share of Joint Ventures EBITDA
[2] Excludes the trading contribution and closure costs of US SAE closed colleges in LA and San Jose, the Health Skills Australia business and bid advisory fees and other expenses accrued in connection with the BGH proposals

Navitas Ventures

Navitas Ventures continued to monitor the education technology sector with a further two small investments made in the period including a follow on investment in an emerging online education businesses and new investment in a new business model for the delivery of remedial programs via an online platform.

Sector Developments and Trends

Globally, demand for high quality tertiary education continued to grow in the period though growth in student recruitment in some destination countries was affected by regulation and government policy.

Australia's international education sector reached record highs in 2018 with over 399,000 international students (Higher Education) studying across Australia generating over $32.4b of export income. Enrolment growth continued to be biased towards East Coast universities and with an increasing proportion of student visas going to post graduate students. Supportive federal government policy on international education ensured Australia remained competitive as an education destination. Navitas continued to engage with government and peak bodies to encourage growth opportunities and ensure a high quality learning environment for students.

Canada, as an education destination, continues to be attractive to international students and the latest country data indicates solid enrolment growth. However, the much tighter immigration regime in the US contributed to a downturn in enrolments across the country. Although the US remains the most popular destination country with international students, the market was down 6.6% in 2018, with this trend likely to continue in the medium term.

Although Navitas saw some positive growth in the UK in recent semesters, student recruitment remains challenging. Pressure remains on the UK Government to exclude international student numbers from the UK's immigration quota.

Strategy

As announced in our recent investor day in Sydney in September, the business remains focused on expansion of our core markets and the development of our transformation partner products to deliver greater value to our University Partners. A strong business development pipeline is supporting further expansion of our partner portfolio in order to build trust to become the partner of choice to help universities navigate through change and respond to opportunities. Beyond these core strategic goals we are seeking to help lead the future of higher education and leverage our capabilities to be a world leader in the delivery of education.

Subsequent Events

There have been no subsequent events since balance sheet date.

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The auditor's independence declaration is set out on page 9 and forms part of the directors' report for the half year ended 31 December 2018.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 2016/191. The Company is an entity to which the class order applies.

Signed in accordance with a resolution of the directors.

D Buckingham
Chief Executive Officer

Perth, Western Australia, 4 February 2019

Deloitte Touche Tohmatsu
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The Board of Directors
Navitas Limited
Level 8, Brookfield Place
125 St Georges Terrace
Perth WA 6000

4 February 2019

Dear Directors,

Auditor's Independence Declaration to Navitas Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Navitas Limited.

As lead audit partner for the review of the half year financial report of Navitas Limited for the half year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner

CONSOLIDATED FINANCIAL REPORT

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2018

	Note	Consolidated 2018 $000s	Consolidated 2017 $000s
Revenue		477,419	456,732
Marketing expenses		(83,067)	(75,040)
Academic expenses		(115,983)	(107,023)
Administration expenses		(227,556)	(222,823)
Non operating gains and losses	8	-	1,211
BGH Consortium proposal costs	10	(13,767)	-
Finance costs		(4,212)	(4,882)
Share of net profit/(loss) of entities accounted for using the equity method		642	519
Profit before income tax expense		**33,476**	**48,694**
Income tax expense from operations		(12,089)	(16,218)
Impact of changes in tax rates during the half year	3	-	(7,458)
Total income tax expense		(12,089)	(23,676)
Profit for the half year		**21,387**	**25,018**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Net currency translation differences		(5,227)	(1,426)
Fair value movement in hedge instruments		(212)	773
Income tax relating to other comprehensive income		477	1,309
Other comprehensive income for the half year		(4,962)	656
Total comprehensive income for the half year		**16,425**	**25,674**
Profit attributable to:			
Owners of the parent		21,367	24,706
Non-controlling interest		20	312
		21,387	**25,018**
Total comprehensive income attributable to:			
Owners of the parent		16,438	25,368
Non-controlling interest		(13)	306
		16,425	**25,674**

		Cents	Cents
Earnings per share			
Basic		6.0	6.9
Diluted		6.0	6.9

The condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position

As at 31 December 2018

	Note	31 Dec 2018 $000s	Consolidated 30 June 2018 $000s	31 Dec 2017 $000s
ASSETS				
Current Assets				
Cash and cash equivalents	4	87,770	81,871	73,270
Trade and other receivables		90,634	123,919	102,015
Current tax receivable		13,558	3,255	2,472
Prepayments and other assets		30,776	34,444	27,539
Total Current Assets		**222,738**	**243,489**	**205,296**
Non Current Assets				
Property, plant and equipment		141,629	140,330	166,549
Deferred tax assets		19,539	16,362	25,922
Investments accounted for using the equity method		25,570	25,939	23,093
Intangible assets		402,209	400,555	426,273
Other financial assets		4,069	3,634	3,287
Total Non Current Assets		**593,016**	**586,820**	**645,124**
TOTAL ASSETS		**815,754**	**830,309**	**850,420**
LIABILITIES				
Current Liabilities				
Trade and other payables		152,947	129,646	115,464
Deferred revenue		262,810	278,502	239,074
Borrowings		3,334	3,262	3,190
Provisions		16,662	22,520	11,565
Total Current Liabilities		**435,753**	**433,930**	**369,293**
Non Current Liabilities				
Trade and other payables		41,458	44,707	47,615
Borrowings		291,869	280,477	270,847
Provisions		30,263	42,388	18,481
Total Non Current Liabilities		**363,590**	**367,572**	**336,943**
TOTAL LIABILITIES		**799,343**	**801,502**	**706,236**
NET ASSETS		**16,411**	**28,807**	**144,184**
EQUITY				
Issued capital	7	110,470	110,209	109,680
Foreign currency translation reserve		(3,352)	1,428	2,769
Cash flow hedge reserve		(608)	(459)	(190)
(Accumulated losses)/retained earnings		(90,543)	(83,255)	30,958
Equity attributable to owners of the parent		**15,967**	**27,923**	**143,217**
Non-controlling interests		444	884	967
TOTAL EQUITY		**16,411**	**28,807**	**144,184**

The condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows

For the half year ended 31 December 2018

	Note	Consolidated 2018 $000s	Consolidated 2017 $000s
Cash flows from operating activities			
Receipts from customers		496,578	467,946
Payments to suppliers and employees		(431,468)	(400,434)
Dividends received from equity accounted entities		1,050	1,250
Interest received		1,016	593
Interest paid		(4,052)	(4,519)
Income tax paid		(25,595)	(23,546)
Net cash flows from operating activities		**37,529**	**41,290**
Cash flows from investing activities			
Purchase of property, plant and equipment		(14,177)	(8,299)
Purchase of controlled entities	8	-	(10,323)
Purchase of other investments		(580)	(200)
Net cash flows used in investing activities		**(14,757)**	**(18,822)**
Cash flows from financing activities			
Payments for share buy-back		-	(1,760)
Proceeds from borrowings		219,079	187,027
Repayment of borrowings		(207,834)	(184,974)
Loans to joint ventures		(129)	(800)
Payment of dividends	9	(28,518)	(35,382)
Payment of dividends to non-controlling interests		(427)	(232)
Net cash flows used in financing activities		**(17,829)**	**(36,121)**
Net increase/(decrease) in cash and cash equivalents		4,943	(13,653)
Net foreign exchange differences		956	281
Cash and cash equivalents at beginning of the half year		81,871	86,642
Cash and cash equivalents at the end of the half year		**87,770**	**73,270**

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity

For the half year ended 31 December 2018

	Issued Capital $000s	Foreign Currency Translation Reserve $000s	Cash Flow Hedge Reserve $000s	(Accumulated losses)/retained earnings $000s	Non-controlling interests $000s	Total equity $000s
Balance at 1 July 2017	110,511	2,648	(731)	42,417	893	155,738
Profit for the half year	-	-	-	24,706	312	25,018
Fair value movement in hedge instruments (after tax)	-	-	541	-	-	541
Net currency translation differences (after tax)	-	121	-	-	(6)	115
Total comprehensive income for the half year	**-**	**121**	**541**	**24,706**	**306**	**25,674**
Dividend reinvestment plan	783	-	-	-	-	783
Employee share plan purchase	146	-	-	-	-	146
Share buy back	(1,760)	-	-	-	-	(1,760)
Dividends paid	-	-	-	(36,165)	(232)	(36,397)
Balance at 31 December 2017	**109,680**	**2,769**	**(190)**	**30,958**	**967**	**144,184**
Balance at 1 July 2018	110,209	1,428	(459)	(83,255)	884	28,807
Profit for the half year	-	-	-	21,367	20	21,387
Fair value movement in hedge instruments (after tax)	-	-	(149)	-	-	(149)
Net currency translation differences (after tax)	-	(4,780)	-	-	(33)	(4,813)
Total comprehensive income for the half year	**-**	**(4,780)**	**(149)**	**21,367**	**(13)**	**16,425**
Dividend reinvestment plan	137	-	-	-	-	137
Employee share plan purchase	124	-	-	-	-	124
Share buy back	-	-	-	-	-	-
Dividends paid	-	-	-	(28,655)	(427)	(29,082)
Balance at 31 December 2018	**110,470**	**(3,352)**	**(608)**	**(90,543)**	**444**	**16,411**
Total attributable to:						
Non-controlling interests – 31 December 2017	-	-	-	-	967	967
Non-controlling interests – 31 December 2018	**-**	**-**	**-**	**-**	**444**	**444**
Owners of the parent entity – 31 December 2017	109,680	2,769	(190)	30,958	-	143,217
Owners of the parent entity – 31 December 2018	**110,470**	**(3,352)**	**(608)**	**(90,543)**	**-**	**15,967**

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the Condensed Consolidated Financial Statements
For the half year ended 31 December 2018

1. Corporate Information

The condensed consolidated financial statements of Navitas Limited and its subsidiaries (collectively, the Group) for the half year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors as of the date of the directors' report.

Navitas Limited (the Company) is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded. The Group's principal activities are the provision of education services as described in note 6.

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

The condensed consolidated financial statements for the half year ended 31 December 2018 have been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The condensed consolidated financial statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements of Navitas Limited as at 30 June 2018.

It is also recommended that the half year financial report is considered together with any public announcements made by Navitas Limited and its controlled entities during the half year ended 31 December 2018.

2.2 Significant accounting policies

The half year condensed consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2018, other than for the impact of the adoption of new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to the consolidated entity and effective for annual reporting periods beginning on or after 1 July 2018.

There have been no new and revised standards that have had a significant impact on the measurement or disclosure requirements of the Group, except as noted below.

(a) New and revised Standards adopted by the Group

<u>AASB 15 *Revenue from Contracts with Customers*</u>

AASB 15 *Revenue from Contracts with Customers* applied to the Group from 1 July 2018 and replaced AASB 118 *Revenue* which covers revenue arising from the sale of goods and the rendering of services.

The new standard is based on the principle that revenue is recognised when control of a service, or goods, transfers to a customer.

The Company completed its assessment of the implications of adopting the new standard and concluded that, due to the nature of the Group's services, there has been no significant changes to the Group's revenue accounting.

The Group's accounting policy under AASB 15 is as follows.

Revenue is recognised when the Group satisfies its performance obligations by transferring education services (including both tuition and other related goods and services) to the customer, and the revenue can be reliably measured at the fair value of the consideration received.

2.2 Significant accounting policies (continued)

The Groups contracts with customers for the provision of education services can include multiple performance obligations. The Group assesses each performance obligation to determine if those performance obligations are distinct from other obligations in the contract. Performance obligations that are not assessed as being distinct from other obligations are grouped together as a bundle of performance obligations.

Bundles of performance obligations are determined where the various performance obligations represent the combined outcome for which the customer has contracted, or a service is highly dependent on another entity-specific good or service promised in the contract.

For each distinct performance obligation, or bundle of performance obligations, the Group allocates the price, as determined by the terms of the contract with the customer, based on the stand alone selling price of the performance obligation, or bundle of performance obligations.

The Group’s primary performance obligations is the delivery of tuition services. The Group has concluded that these should be recognised over time based on the stage of completion of the service being delivered to the customer. The stage of completion is measured by reference to the number of contact days held as a percentage of the total number of contact days in the course. This treatment is the same as under AASB 118.

The Group’s other performance obligations are recognised either over time, on a stage of completion basis, or at the point in time the service, or good, is sold. This determination is made on a case by case basis for each performance obligation based on the point at which control of the good or service completely passes to the customer. This treatment is the same as under AASB 118.

Where income is recorded in advance of the provision of service the full amount is recognised as deferred revenue in the statement of financial position. Revenue is then recognised as outlined above.

The Group has applied the modified approach to the application of AASB 15 on 1 July 2018. No reconciliation of the change in accounting standard is required as the Group’s revenue accounting under AASB 15 is substantially the same under AASB 118.

(b) Accounting Standards issued but not yet applied by the Group

<u>AASB 16 *Leases*</u>

The new leasing standard, effective 1 July 2019, replaces AASB 117 *Leases* and requires that:

- All leases are ‘capitalised’ by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment.

- A financial liability is recognised representing obligations to make future lease payments.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The standard will affect primarily the accounting for the Group’s operating leases. As at 30 June 2018, the Group had non-cancellable operating lease commitments of $462m.

The Company is currently completing its assessment of the effects of applying the new standard on the Group’s financial statements, including the extent to which these commitments will result in the recognition of lease assets and liabilities for future lease payments and how this will affect the Group’s net assets, profit and classification of cash flows.

2.2 Significant accounting policies (continued)

The financial impact of the new standard in the 2020 financial year will be dependent on the following factors:

- the number and value of the Group's leases arrangements at the implementation date
- management judgements made regarding the likelihood of renewal of each lease (where renewal options are available) at the implementation date
- management judgements in relation to the applicable discount rate for each lease at the implementation date, and
- the accounting approach adopted for each lease.

The Company is well progressed in its assessment of the impact of the new standard. However, the final impact will be dependent on the lease arrangements in place at transition and the assessment of the factors outlined above. The Group continues to estimate that on adoption of the new standard, as disclosed in the 30 June 2018 financial statements, the Group's reported earnings before interest, tax, depreciation and amortisation (EBITDA) will increase by more than $60m, more than offset by higher depreciation and interest expense and is expected to initially result in a $5m to $10m reduction in reported profit after tax. These assessments include existing obligations related to the C&I Division's ongoing SAE US business units.

The Group's assets and liabilities are forecast to increase significantly following recognition of assets and liabilities representing the present value of the operating lease commitments.

3. Changes in tax rates during the half year ended 31 December 2017

On 22 December 2017, the US Tax Cuts and Jobs Act was signed into legislation. Under the reforms, the previous US top corporate rate of 35% was reduced permanently to 21%, for tax years beginning after 1 January 2018.

In accordance with AASB 112 *Income Taxes*, the Group re-measured $17.4 million of US related carry forward tax losses and recognised a reduction in the carrying value of these tax assets, by $7.5 million, to $9.9 million. This resulted in an increase in income tax expense of $7.5 million in the half year ended 31 December 2017.

No tax rates changed during the current period.

4. Cash and Cash Equivalents

The Group is required to maintain, in Australia, separate bank accounts for funds received from international students prior to commencement of their course (prepaid fees). As at 31 December 2018, the Group's Australian operations held $47.2 million (2017: $46.7 million) in prepaid fees for students who had not commenced studies with the Group, with a corresponding amount included in deferred revenue.

These funds are held in separate bank accounts until the student commences their course, at which point the funds may be used to settle normal obligations of the Group. At all times, the Group must ensure that there are sufficient funds in these separate bank accounts to repay prepaid tuition fees to all international students, in respect of whom tuition fees have been paid and who have not yet commenced their course.

5. Revenue from contracts with Customers

The Group derives revenue from the transfer of education related services over time and at a point in time in the following Divisions and Geographical markets.

5.1 Disaggregated revenue information

$000s	For the half year ended 31 December 2018					
	University Partnerships	Careers & Industry Division SAE	PEP	C&I Total	Corporate	Navitas Total
Type of services						
Tuition services	280,122	101,457	51,025	152,482	-	432,604
Other ancillary education services	34,860	5,801	444	6,245	2,800	43,905
Total revenue from contracts with customers	314,982	107,258	51,469	158,727	2,800	476,509
Geographical markets						
Australia and New Zealand	189,859	34,769	51,436	86,205	2,800	278,864
Canada	60,688	388	-	388	-	61,076
United Kingdom	35,068	4,818	-	4,818	-	39,886
United States	11,355	32,580	33	32,613	-	43,968
Europe	-	34,703	-	34,703	-	34,703
Asia	18,012	-	-	-	-	18,012
Rest of world	-	-	-	-	-	-
Total revenue from contracts with customers	314,982	107,258	51,469	158,727	2,800	476,509
Timing of revenue recognition						
Services transferred over time	280,122	101,457	51,025	152,482	2,800	435,404
Services transferred at a point in time	34,860	5,801	444	6,245	-	41,105
Total revenue from contracts with customers	314,982	107,258	51,469	158,727	2,800	476,509

$000s	For the half year ended 31 December 2017					
	University Partnerships	Careers & Industry Division SAE	PEP	C&I Total	Corporate	Navitas Total
Type of services						
Tuition services	265,176	91,218	58,146	149,364	-	414,540
Other ancillary education services	31,694	7,210	659	7,869	2,040	41,603
Total revenue from contracts with customers	296,870	98,428	58,805	157,233	2,040	456,143
Geographical markets						
Australia and New Zealand	184,542	32,896	58,805	91,701	2,040	278,283
Canada	47,085	407	-	407	-	47,492
United Kingdom	32,417	4,727	-	4,727	-	37,144
United States	14,843	28,484	-	28,484	-	43,327
Europe	-	30,387	-	30,387	-	30,387
Asia	17,983	676	-	676	-	18,659
Rest of world	-	851	-	851	-	851
Total revenue from contracts with customers	296,870	98,428	58,805	157,233	2,040	456,143
Timing of revenue recognition						
Services transferred over time	265,176	91,218	58,146	149,364	2,040	416,580
Services transferred at a point in time	31,694	7,210	659	7,869	-	39,563
Total revenue from contracts with customers	296,870	98,428	58,805	157,233	2,040	456,143

6. Segment Information

Reportable Segments

University Partnerships Division

The University Partnerships division delivers education programmes, via pathway colleges and managed campuses, to students requiring a university education.

Careers & Industry Division

Comprising:

> ***SAE***
> SAE delivers education programmes in the area of creative media including courses in audio, film and multimedia.
>
> ***Professional and English Programs (PEP)***
> PEP delivers English language tuition and higher and vocational education in health, security and psychology.

Corporate

Corporate is the aggregation of the Group's corporate functions.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

6. Segment Information (continued)

The following is an analysis of the revenue and results for the half year by reportable segment.

$000s	University Partnerships		Careers and Industry						Corporate		Total	
			SAE		PEP		Total					
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue												
Total segment revenue	314,982	296,870	107,258	98,428	51,469	58,805	158,727	157,233	2,800	2,040	476,509	456,143
Interest revenue											910	589
Total revenue											477,419	456,732
Result												
EBITDA*	67,192	66,180	9,152	13,142	6,693	6,746	15,845	19,888	(19,424)	(19,341)	63,613	66,727
BGH Consortium proposal costs	-	-	-	-	-	-	-	-	(13,767)	-	(13,767)	-
Non operating gains and losses	-	-	-	-	-	-	-	-	-	1,211	-	1,211
Depreciation	(2,529)	(2,734)	(4,430)	(7,240)	(1,032)	(1,780)	(5,462)	(9,020)	(5,417)	(3,414)	(13,408)	(15,168)
Amortisation	(105)	(105)	-	-	(197)	(197)	(197)	(197)	-	-	(302)	(302)
EBIT^	64,558	63,341	4,722	5,902	5,464	4,769	10,186	10,671	(38,608)	(21,544)	36,136	52,468
Net finance expense											(3,302)	(4,293)
Share of net profit of joint ventures											642	519
Profit before income tax											33,476	48,694
Income tax expense											(12,089)	(23,676)
Profit for the half year											21,387	25,018

* EBITDA = *Earnings before interest, taxes, depreciation, amortisation, impairments and non-operating gains or losses. EBITDA excludes the share of results of equity accounted investments in joint ventures*
^ EBIT = *Earnings before tax and net finance expense*

7. Issued capital

	Consolidated		
	31 Dec 2018 $000's	**30 Jun 2018 $000's**	**31 Dec 2017 $000's**
Issued capital			
Ordinary shares fully paid	**110,470**	110,209	109,680

During the half year, the Company issued shares to executives employees (under terms of the executive share plan) in settlement of obligations arising from the Company's ValueShare incentive scheme. These obligations were previously recognised in the Company's results for the 30 June 2018 financial year. In addition, the Company issued shares to eligible employees in lieu of salaries and wages as part of the Company's Employee Share Ownership Plan.

	2018		2017	
	No of shares	**$000s**	**No of shares**	**$000s**
Executive share plan	**12,048**	**53**	2,450	10
Employee share plan	**15,960**	**70**	31,373	137
	28,008	**123**	33,823	147

During the half year, the Company issued 30,825 shares to a value of $0.137 million in lieu of cash dividends (December 17: 176,381 shares valued at $0.783 million).

8. Changes in the Group's Structure during the half year

Half Year ended 31 December 2018

There have been no material changes in the Group's structure during the half year.

Half Year ended 31 December 2017

In the half year ended 31 December 2017, the following transactions occurred.

Acquisition of additional interest in Australian School of Applied Management (ASAM)

In October 2017, Navitas acquired an additional 50% interest in ASAM for $5.6 million, increasing the Group's ownership interest in ASAM to 80%. As a result, ASAM became a controlled entity and has been consolidated by Navitas since this date.

As a consequence of the acquisition and ASAM becoming a controlled entity of Navitas, the Group recorded a one off gain of $1.2 million on the revaluation of its pre-existing 30% shareholding.

Acquisition of Christchurch College of English Limited

In December 2017, Navitas acquired 100% of Christchurch College of English Limited (CCEL) for NZ$5.25 million. CCEL is an on-campus English language provider with colleges in Christchurch and Auckland, New Zealand.

9. Dividend paid and proposed

	Consolidated 31 Dec 2018	31 Dec 2017
Equity dividends on ordinary shares		
(a) Franked dividends paid during the half year Final dividend for financial year 30 June 2018 (2017) (cents)	8.0	10.1
Final dividend for financial year 30 June 2018 (2017) ($000s)	28,655	36,165
(b) Franked dividends proposed and not recognised as a liability Interim dividend on ordinary shares for financial year (cents)	-	9.4
Interim dividend on ordinary shares for financial year ($000s)	-	33,660

10. BGH Consortium Indicative Proposal

On 9 October 2018 the Navitas Group received an unsolicited, preliminary, conditional and non binding proposal from BGH Capital Pty Ltd, Australian Super Pty Ltd as trustee for Australian Super and Mr Rodney Jones (together the “BGH Consortium”) to acquire 100% of the outstanding shares in Navitas by way of a Scheme of Arrangement.

On 15 January 2019 the Navitas Group announced that it had received a revised non-binding proposal from the BGH Consortium.

In the 31 December 2018 half year, the Group has recognised $13.8m of additional, non operational, bid advisory fees and other expenses in relation to the response to this proposal.

Directors' Declaration

In accordance with a resolution of the directors of Navitas Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

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

 (ii) complying with Australian Accounting Standards including Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

On behalf of the Board

D Buckingham
Chief Executive Officer

Perth, Western Australia, 4 February 2019

Deloitte.

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Independent Auditor's Review Report to the members of Navitas Limited

We have reviewed the accompanying half-year financial report of Navitas Limited, which comprises the condensed statement of financial position as at 31 December 2018, the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 10 to 22.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Navitas Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Navitas Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Navitas Limited is not in accordance with the *Corporations Act 2001*, including:

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

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants
Perth, 4 February 2019