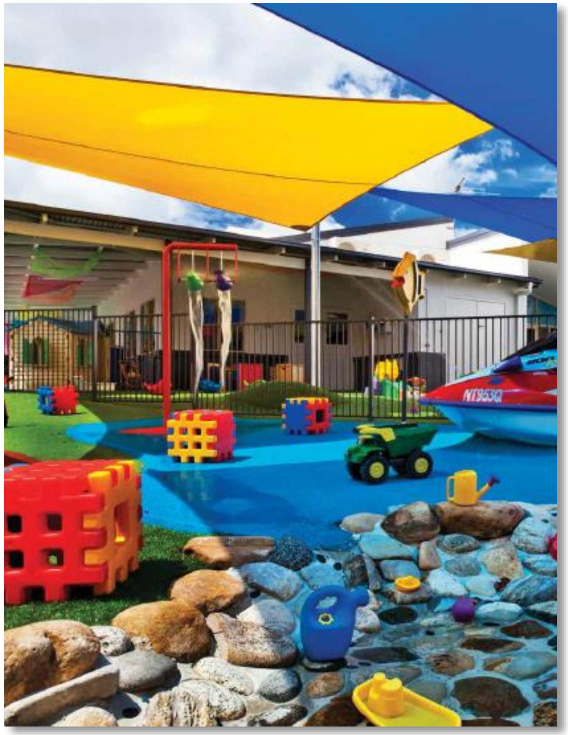

Affinity Education Group

AFFINITY EDUCATION GROUP

Half Year Results

29 August 2014

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Section 1

H1 FY2014 Results Highlights

We provide a positive environment that allows our children, families and educators to flourish.

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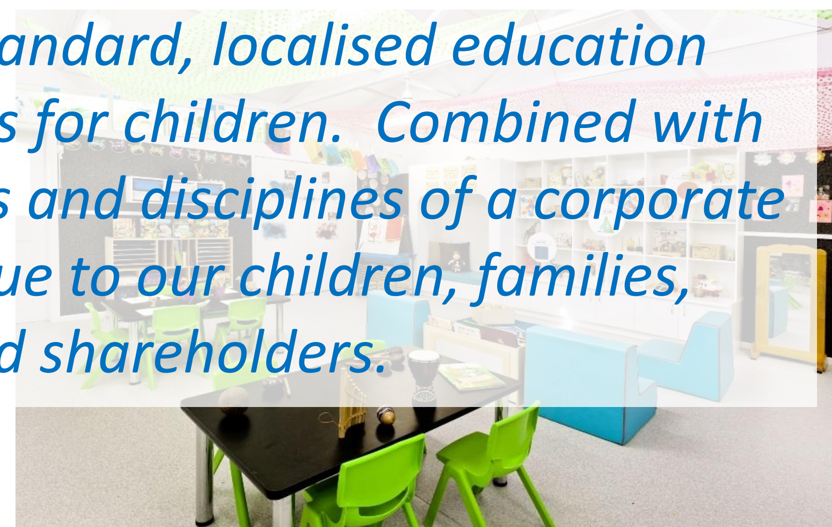
With a leadership team who bring decades of experience in the Australian early childhood sector, Affinity Education's child care and high quality education solutions for families are second to none.

We provide the highest standard, localised education programs and care solutions for children. Combined with centralised support functions and disciplines of a corporate entity, we can deliver value to our children, families, educators and shareholders.

H1 FY2014 Financial highlights

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Affinity Education has delivered on the Pro-forma IPO earnings forecast

1. Earnings were delivered through a focus across all business lines
2. The margin was above the forecast through a strong focus on earnings delivery
3. The revenue variance is primarily driven by lower occupancy volume, however is increasing into H2 FY 2014

$'000s	Prospectus H1 FY14	Pro-forma H1 FY14	Variance %
Revenue	37,767	35,424	(6.3)%
EBITDA	4,255	4,297	0.1%
EBITDA margin	11.3%	12.1%	7.1%
EBIT	3,845	3,862	0.1%

H1 FY2014 Financial highlights

Affinity Education Group

The statutory numbers for Affinity Education are materially impacted by successfully completing acquisitions that double the group's size in the first 6 months

1. As at 30 June 2014, the Affinity group included 103 centres including 91 owned and an additional 12 managed, with a further 17 under contract
2. Revenue was 1.8% greater than prospectus including contributions from acquisitions
3. The NPAT result is impacted by acquisition costs of $7.8 million, excluding these costs, EBIT would have been $4.0 million or 30% above the prospectus EBIT of $3.1 million

$'000s	Prospectus H1 FY14	Actual H1 FY14	Variance %
Revenue	37,767	38,465	1.8%
EBITDA	3,483	(3,378)	n.m.
EBITDA margin	9.2%	n.m.	n.m.
EBIT	3,073	(3,840)	n.m.
NPAT	2,047	(5,002)	n.m.

Significant milestones

Affinity has achieved a number of significant milestones since listing in December 2013

May 2013
Incorporation of Affinity Education

Nov 2013
IPO was multiple times oversubscribed

Dec 2013
Successfully listed on the ASX, completing 100% of acquisitions ahead of Prospectus forecast

Feb 2014
FY13 results meet Prospectus forecast

Mar 2014
Initial integration completed with all critical items addressed. Ongoing work streams continuing across systems, HR, operations, finance and acquisition plans

Apr 2014
$75m AREO completed

Further 51 centres contracted

May 2014
Announced significant increase in debt capacity to $115m

Today
Market Cap: $200m

Centres: 120

Operational and integration highlights

Operations continue to improve and integration is continuing in line with expectations

1. **Debt capacity -** Debt is expected to be drawn down in the second half in line with the finalisation of further accretive acquisitions

2. **KIC transaction –** Successful retention of the management team has ensured continuity of centre performance, with integration progressing well and on plan

3. **Systems –** Our ability to further improve system architecture allows staff to put greater focus on delivery of quality care and education programs

4. **People -** AFJ is a people driven business and we are undertaking several key initiatives to improve efficiency, professional development and employee retention

5. **Integration -** The broader portfolio integration is continuing with key functions now stabilised and improvement programs underway, the new centres are performing well and integrating on plan

Section 2

Detailed Financial Information

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Financial performance

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1 **Revenue**

- Revenue is 1.8% higher than prospectus due acquisition revenue offsetting lower than expected revenue on the IPO centres

2 **Employee, occupancy and direct expenses**

- Marginally higher than prospectus due to additional expenses from acquired centres, outweighing the benefits from cost saving initiatives on the IPO portfolio

3 **Integration expense**

- Slightly higher than prospectus due to external consultants to improve management reporting

4 **Acquisition expenses**

- Expenses incurred from successfully completing acquisitions (stamp duty, agent's fees, legal and consultancy services) and preparing for future acquisitions

5 **Other**

- Better than prospectus due to cost control initiatives

$'000s	Six months to 30 June 2014 Actual	Six months to 30 June 2014 Prospectus
Revenue from continuing operations	**38,211**	**37,767**
Employee expenses	24,226	23,434
Building occupancy expenses	5,447	5,616
Direct expenses of providing services	2,814	3,822
Integration expenses	477	400
Acquisition expenses	7,796	-
Other expenses	829	1,012
Total expenses	**41,589**	**34,284**
EBITDA	**(3,378)**	**3,483**
Depreciation	462	410
EBIT	**(3,840)**	**3,073**
Net finance income / expense	37	139
(Loss) / profit before tax	**(3,803)**	**2,934**
Income tax expense	1,199	887
(Loss) / profit for the period	**(5,002)**	**2,047**

Financial position

AFFINITY EDUCATION GROUP

1 Cash Balance

- Increase driven by $3.8m of operating cash inflows and the remaining proceeds from the AREO for the purchase of centres

2 Intangibles

- Increase represents goodwill on acquired centres

3 Current liabilities

- As at 30 June, $5.4m related to amounts payable in relation to acquisition expenses

4 Total liabilities

- Increased due primarily to balances recognised on acquisitions (employee leave and repairs & maintenance provisions) and an increase family bonds.

5 Borrowing capacity

- Strong balance sheet capacity with $100m of undrawn facility for acquisition purposes and leverage ratio <1% (as at 30 June)

$'000s	As at 30 June 2014	As at 31 December 2013
Current assets		
Cash and cash equivalents	**34,309**	**3,068**
Other current assets	**5,475**	**2,818**
Non-current assets		
Intangibles	**117,008**	**62,122**
Deferred tax assets	**9,374**	**6,814**
Total assets	**166,166**	**74,822**
Current liabilities	**17,269**	**8,425**
Non-current liabilities	**1,563**	**958**
Total liabilities	**18,832**	**9,383**
Net Assets	**147,334**	**65,439**
Equity		
Issued share capital	**161,192**	**74,295**
Retained earnings	**(13,858)**	**(8,856)**
Total equity	**147,334**	**65,439**

Cashflow statement

AFFINITY EDUCATION GROUP

1 Operating cash flows

- Excluding acquisition costs, operating cash flows are $3.8m, which represents a 85% conversion rate from EBITDA (excluding acquisition costs)

2 Borrowings

- Proceeds from borrowings represent amounts received under the finance lease facility for the purchase of computer systems (SAP, Employee Central) and motor vehicles

$'000s	Six months to 30 June 2014 Actual	Six months to 30 June 2014 Prospectus
Cash flows from operating activities		
Receipts from customers	36,862	38,463
Payments to suppliers and employees	(33,135)	(33,051)
Acquisition costs	(3,478)	-
Financing income / (costs)	37	(114)
Net cash flows from operating activities	286	5,298
Cash flows from investing activities		
Payments for purchase of businesses	(41,201)	-
Payments for assets	(419)	(478)
Other investing items	22	250
Net cash flows from investing activities	(41,598)	(228)
Net proceeds from issue of shares	71,983	-
Proceeds / (repayment) of borrowings and lease liabilities	570	(230)
Net cash flows of financing activities	72,553	(230)
Net increase in cash and equivalents	31,241	4,840

Section 3

Operational and Integration Updates

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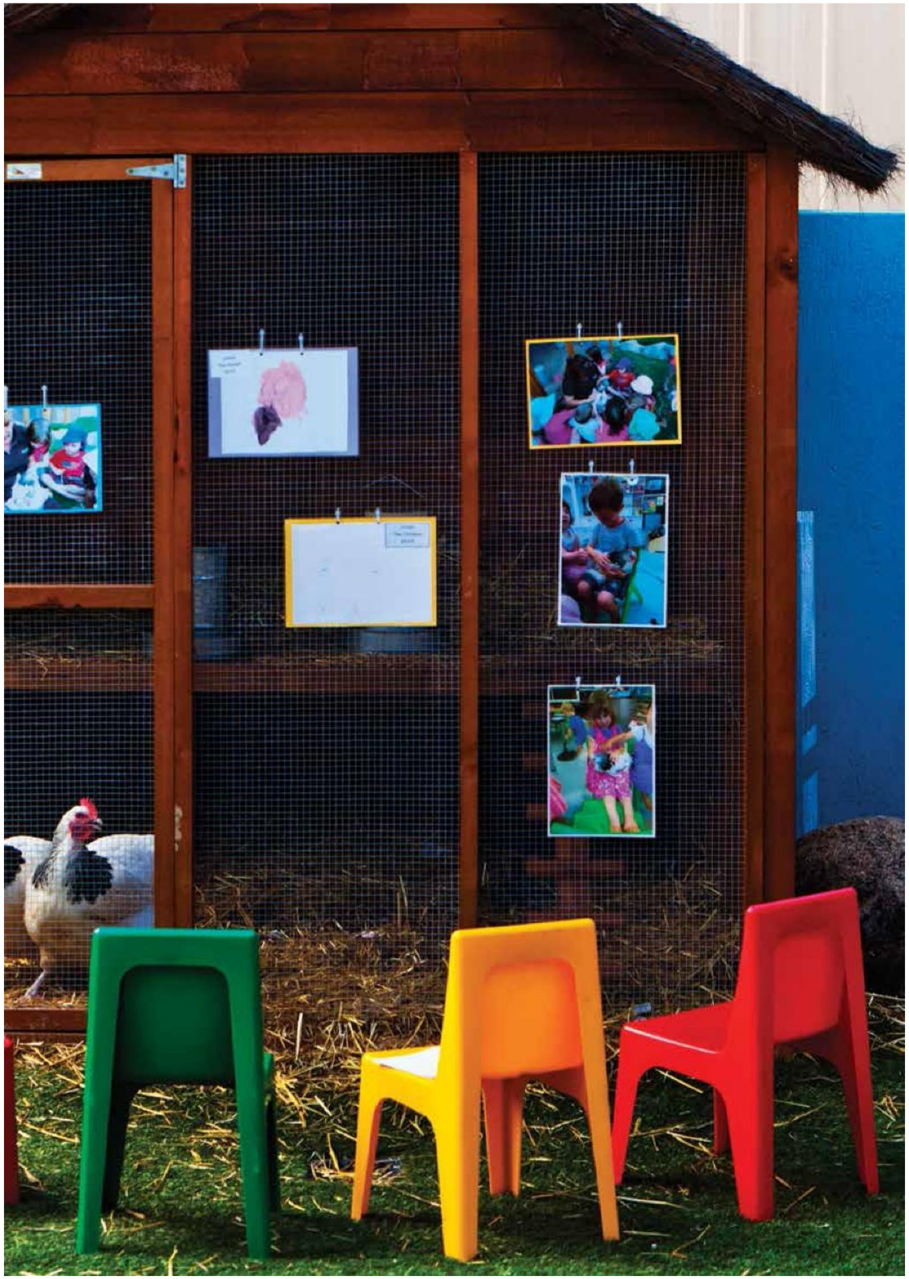

Portfolio snapshot

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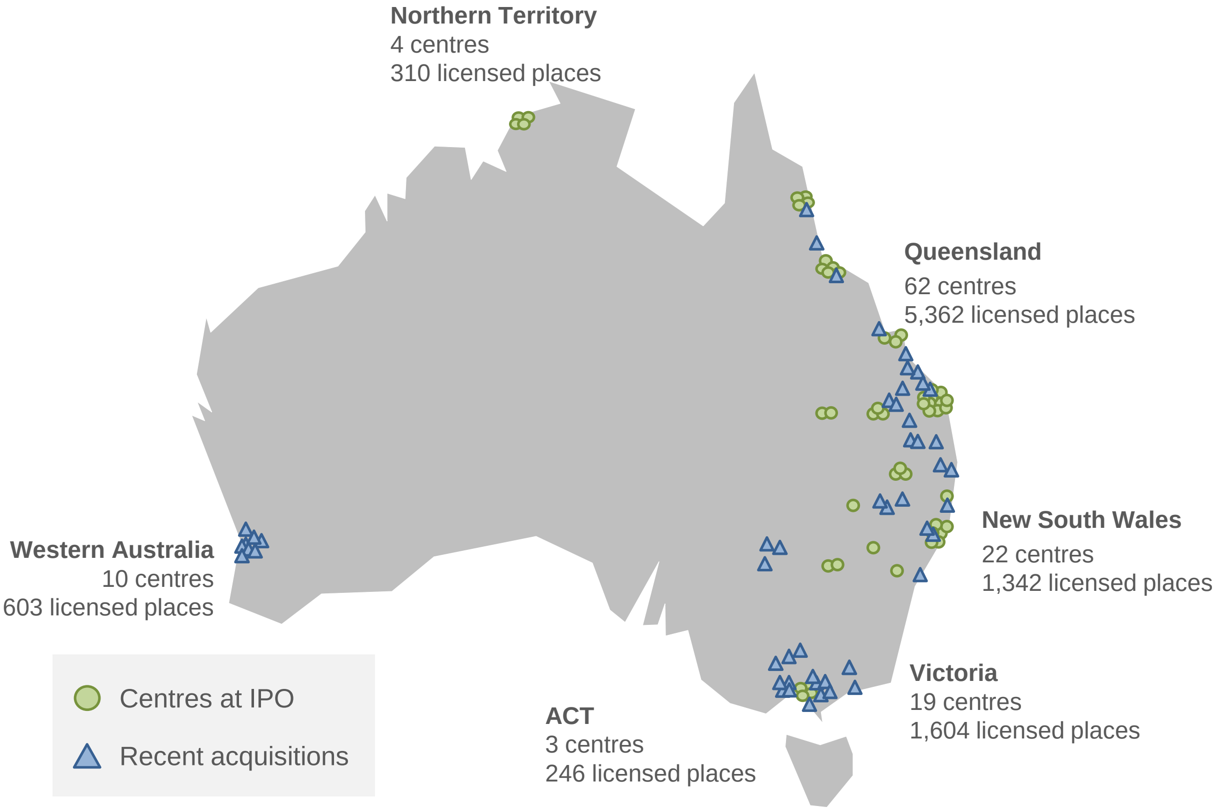
Diversified portfolio of 120 centres including 12 managed centres located across Australia with 9,467 licensed places



(1) Includes 9 centres to be settled in August and September 2014.

Trading update

Affinity Education Group

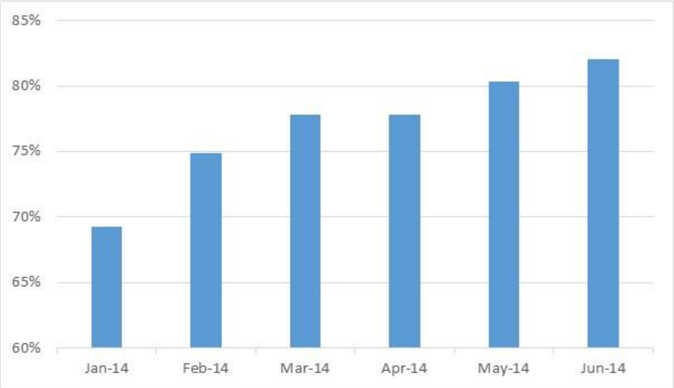
Operations providing strong trends into H2 FY2014

- Performance across the portfolio continues to strengthen, with targeted centre specific actions lifting performance across volume and margin
- Acquisitions are performing in line with expectations
- Causes for revenue variances in H1 FY2014 have been actioned
- Improving trends across key metrics: *Occupancy*, *Average Fee* rates and *Wage to Revenue*

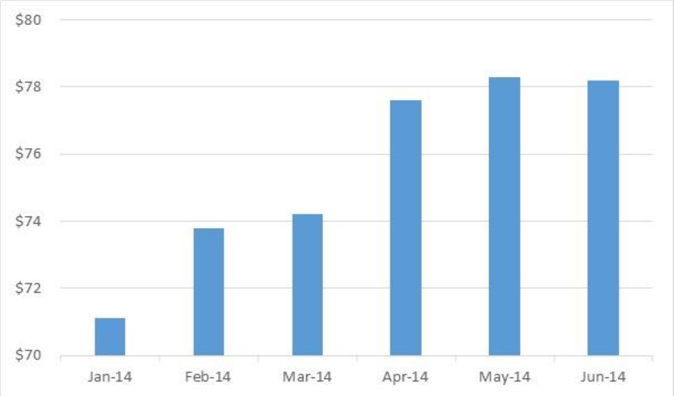
Operational update

Strong trends from increased stabilisation and ongoing improvement initiatives increasing performance

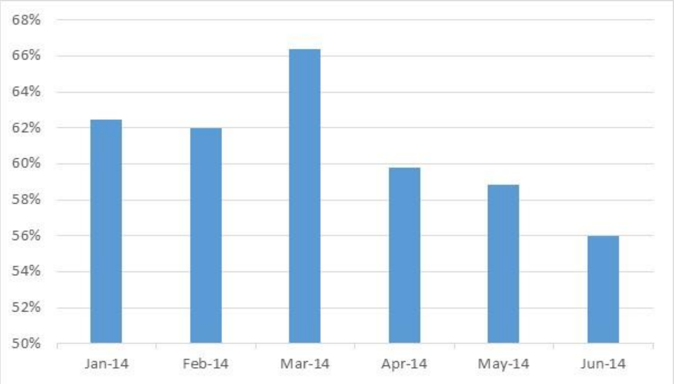
- **Occupancy** has continued to increase through strong action and focus from management in a relatively short space of time, currently the prospectus portfolio is sitting around 86%



- Importantly our **Average Fee** rates grew at the same time as occupancy increased, showing that the growth was "*quality*" growth, and not growth achieved by reducing margin



- **Wage to Revenue** continues to trend down with initiatives implemented to continue to strengthen this result in the second half



Section 4

Growth Strategy and Outlook

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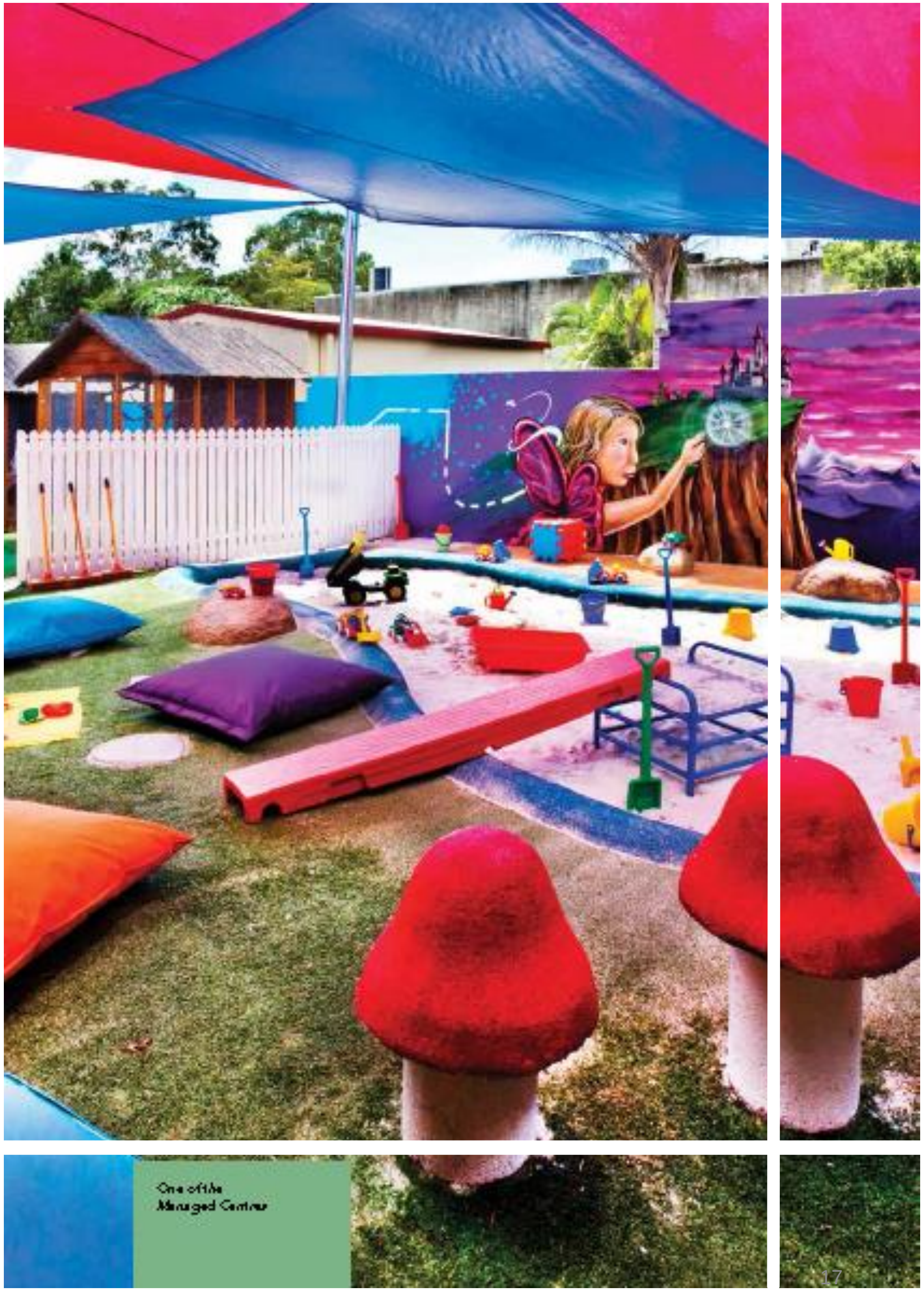

Growth Strategy and Outlook

Affinity Education will continue to focus on organic growth and a disciplined acquisition strategy targeting earnings accretive acquisitions with strong available debt capacity

Multiple Sources of Growth

Strong Acquisition Pipeline

- Focussed on disciplined acquisition strategy targeting earnings accretive opportunities
- Continuing to look at both centre and corporate opportunities
- Accretion, Risk and Pricing continue to be critical acquisition factors
- Affinity Education has gained key insights and learning, improving future acquisition and integration processes

Strong Organic Growth Opportunities

- Increasing revenue through targeted occupancy and margin strategies
- Increasing the rollout of configured and licensed capacity
- Achieving greater efficiencies in staff structures, reducing wage costs, increasing staff retention & other economies of scale
- Introduction of programs to better deliver value to parents and children

Highly fragmented market with significant acquisition opportunities continues

Strong Acquisition Pipeline going forward

Significant balance sheet capacity of $100m to fund acquisition pipeline

Five pillars delivering shareholder returns

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Organic growth driven through a balanced approach across five critical areas

Customers (Parents & Children)

- CRM – new and existing families
- Programming and resource investment
- Focus on delivering value
- Improving parent's relationships with their children

Our People

- Internal development program
- Career focus, succession planning, personal development
- Operational improvement in staff structuring
- Improved systems and information flow

Community

- Active member of local community
- Valued member of social infrastructure
- Focussed on delivering more effective services

Shareholders

- Strong governance
- Transparency
- Growing returns

Stakeholders

- Government
- Financiers
- Growth Partners

Delivering growing shareholder returns

Customer Centric Business Model

Affinity Education Group

Delivering exceptional customer service will come through investing in our people and our systems

People

→ People development & investment

→ Greater staff engagement

→ Lower turnover & costs

→ Greater levels of accountability and responsibility

→ Higher quality service delivery & growth

→ CRM

→ Social media

→ Data mining

→ Customised service offering

→ Rostering

→ Asset Management Metrics

→ Improved delivery of value

Systems

Productivity Commission draft report

Affinity Education Group

Affinity is closely following the Productivity Commission's recommendations to increase the sector's effectiveness and accessibility to Australian families

- The Productivity Commission released its draft report on *Childcare and Early Childhood Learning* on 22 July 2014
- Affinity welcomes any initiative to make the childcare sector more affordable, flexible and accessible to Australian families
- Key recommendations of the Draft report include:
  - Replacing the current multiple subsidies with a single means and activity tested subsidy, with 30%-90% of fees paid by Government
  - Removing the restrictions on the numbers of child care places for occasional care and centre hours
  - Nannies being eligible for childcare subsidies, subject to minimum qualifications
  - School principals being responsible for schools offering before and after school care
  - Continuation of Government support for access to preschool
  - Removal of payroll exemption for NFPs
- Under the recommendations, the sector will see increased funding allowing a broader range of services covered
- With the establishment of the Affinity Education childcare services platform, we are ideally placed to work with relevant stakeholders to capture potential opportunities, if and when the recommendations are enacted
- Affinity is now a member of the larger operators association (Early Learning and Care Council of Australia) responding to the PC & government.

2014 Outlook

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Based on current trends Affinity Education maintains its FY2014 pro forma prospectus earnings forecast

- Stronger operational performance coming into H2 FY2014
- Access to significant funding to increase accretive growth in H2 FY2014
- Strong acquisition pipeline going forward
- Continued investment in people and systems to deliver superior customer focussed strategy
- Strengthening platform improving acquisition integration
- The company’s policy remains that dividend expectations will be approximately 60% of NPAT

Thank you and Questions

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