# IDP EDUCATION LIMITED
**ABN 59 117 676 463**

# Financial Report

**For the year ended 30 June 2018**

**Appendix 4E**
**IDP EDUCATION LIMITED**
**ABN 59 117 676 463**
**Year ended 30 June 2018**

## Results for Announcement to the Market

| | 30 June 2018 $'000 | 30 June 2017 $'000 | Movement $'000 | Movement % |
|---|---|---|---|---|
| Revenue from ordinary activities | 487,155 | 394,187 | **92,968** | **23.58** |
| Net profit for the year attributable to the owners of IDP Education Limited | 51,524 | 41,511 | **10,013** | **24.12** |

| **Dividends** | **Amount per ordinary share cents** | **Franked amount per ordinary share cents** |
|---|---|---|
| FY17 final dividend paid | 5.50 | 3.03 |
| FY18 interim dividend paid | 8.50 | 5.95 |
| FY18 final dividend (declared after balance date) | 6.50 | 3.90 |

| | |
|---|---|
| Record date for determining entitlements to the dividends | 7 September 2018 |
| Dividend payment date | 27 September 2018 |

| **Net tangible assets per ordinary share** | **30 June 2018 cents** | **30 June 2017 cents** |
|---|---|---|
| Net tangible assets per share | (14.99) | (14.51) |
| Net assets per share | 40.46 | 35.48 |

Net tangible assets are defined as the net assets less intangible assets and capitalised development costs.

A significant proportion of the Group's assets are intangible in nature totalling $133.1m, including software, goodwill and identifiable intangible assets relating to businesses acquired. These assets are excluded from the calculation of net tangible assets per share, which results in the negative net tangible assets.

**Other information required by Listing Rule 4.3A**

The remainder of information requiring disclosure to comply with Listing Rule 4.3A is contained in the Financial Report (which includes the Directors' report).

# Contents

# Directors' report

The Directors of IDP Education Limited, present the financial report of IDP Education Limited (the Company) and its controlled entities (the Group, IDP or IDP Education) for the financial year ended 30 June 2018.

## Operating and financial review

**Introduction**

A summary of IDP Education's consolidated financial results for the year ending 30 June 2018 ("FY18") is set out below. The financial performance of the company during the year was strong with another record year for revenue and earnings.

**Summary Financials (A$m)**

| | | | | Growth | |
|---|---|---|---|---|---|
| | **Unit** | **FY18** | **FY17** | **$m** | **%** |
| Total Revenue | A$m | 487.2 | 394.2 | 93.0 | 23.6% |
| Gross Profit | A$m | 269.5 | 212.7 | 56.8 | 26.7% |
| EBIT | A$m | 75.9 | 61.2 | 14.7 | 24.0% |
| NPAT | A$m | 51.5 | 41.5 | 10.0 | 24.1% |
| NPAT (Adjusted) * | A$m | 55.3 | 42.6 | 12.7 | 29.9% |
| EPS | cents | 20.6 | 16.0 | 4.6 | 28.8% |
| EPS (Adjusted) * | cents | 22.1 | 17.0 | 5.1 | 30.0% |
| Debt | A$m | 63.9 | 39.1 | 24.8 | 63.4% |

The table above includes a measure of "adjusted" NPAT and "adjusted" Earnings Per Share ("EPS"). These measures exclude amortisation of intangible assets acquired through business combinations from the calculation. This amortisation charge in FY17 relates primarily to the acquisition of Hotcourses which was completed on 31 January 2017. In FY18 in addition to the amortisation charge for Hotcourses, the licence acquired in the acquisition of Promising Education China in FY16, which had a net book value of $1.98m was fully amortised after the reassessment of its useful life, as the Chinese government changed the regulations for education agents during FY18, no longer requiring agents to hold a licence.

The Directors believe these adjustments and other non-IFRS measures included in this report are relevant and useful in measuring the financial performance of the company. Later in the report the Directors also present "underlying" financial measures which remove the impact of foreign exchange movements during the year. The Directors believe that these "adjusted" and "underlying" metrics provide the best measure to assess the performance of the Group by excluding the impact of currency movements, non-cash intangible asset amortisation generated from business combinations from the reported IFRS measures.

**Review of Operations**

IDP has a global footprint and a diversified business model across its four business lines. As a result, the aggregate performance of the company for any given year is driven by a large number of variables across many countries. This report provides a high-level summary of the highlights and key drivers during the year.

The performance of IDP Education in FY18 represents a continuation of the strong organic growth that the company has been experiencing over the past six years. This growth has been underpinned by the ongoing global growth in the international education industry and the central role of English as a key global language. IDP Education has a global footprint and diversified business model that benefits from these global trends.

From an international education perspective, the key macro drivers remained supportive during FY18. IDP Education's key destination markets for student placement - Australia, UK and Canada remain attractive destinations for international students. Favourable regulatory settings combined with Australia's continued reputation for high quality education and a safe and friendly living environment underpins its appeal for international students.

## Operating and financial review (continued)

**Review of Operations (continued)**

Similarly, the Canadian market is benefitting from open and inviting regulatory settings with government policies designed to attract international students. IDP Education has benefited from this dynamic with increasing levels of interest from prospective students in our source countries for study in Canada.

The UK remains challenging from a regulatory perspective with relatively restrictive immigration policies impacting the flow of international students. Uncertainty remains around the impact of Brexit in FY18. However, the UK market in aggregate has seen a small increase in total international student volumes as the attractiveness of the higher quality globally recognised universities continue to be a significant drawcard for international students. IDP Education recorded strong growth in UK student volumes during the year reflecting an increased market share across its source countries and a focus on the quality end of the higher education spectrum.

Sentiment towards the US as an international education destination was impacted during FY18 by a series of events that raised concerns over the openness of the country and safety for international students. This included tighter visa conditions, isolated cases of violence against international students and attempts by the new administration to impose travel bans from certain Middle Eastern countries. Despite these events impacting the overall market, demand for the US from IDP countries during FY18 improved.

The US remains the most popular destination for international students globally with the prestige of a US college education still resonating in many of IDP's source countries. IDP Education remains confident of the long-term growth opportunity in the US as penetration increases and the industry becomes more familiar with the benefits of the agency model provided by companies such as IDP Education.

IDP Education's English language testing business continues to benefit from the increased global mobility of students, workers and migrants to the main English speaking countries. The number of IELTS tests conducted by IDP Education in each period is however influenced by a diverse and complex range of microeconomic factors across the 50 IDP IELTS countries. The performance of the company's IELTS operations is influenced by factors such as: economic conditions in the local economy; demand for overseas study and work; immigration policies and visa settings by the key English-speaking countries, and currency fluctuations. Competition is also a key factor and the recognition by governments and other organisations of alternative English tests also influences IELTS test volumes.

IDP Education views and manages its business on a geographic basis. Country and regional management are responsible for all activities in their geographic region across each of the company's key products (Student Placement, English Language Testing, English Language Teaching and Digital Marketing and Events). As a result, the company's key reporting segments comprise geographic regions. The sections below discuss the company's results across its three geographic regions.

### Asia

The table below shows the company's results across its Asian region which includes the following countries: Bangladesh, Cambodia, China, Hong Kong, India, Indonesia, Japan, Laos, Malaysia, Mauritius, Nepal, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand and Vietnam.

**Asia Segment - Financial Summary**

| | | | | Growth | |
|---|---|---|---|---|---|
| | **Unit** | **FY18** | **FY17** | **$m** | **%** |
| Total Revenue | A$m | 304.9 | 238.0 | 66.9 | 28.1% |
| EBIT | A$m | 82.6 | 70.3 | 12.3 | 17.5% |
| EBIT Margin | % | 27% | 30% | | |
| % of Total Group Revenue | % | 63% | 60% | | |
| % of Total Group EBIT (Excl Corporate Overheads) | % | 67% | 67% | | |

Asia posted another strong year of growth and continued to be a key driver of the company's profitability with 67% of group EBIT (excluding corporate overhead) coming from the region. The region includes both India and China which are the key engines of growth for the international education industry more broadly. These countries have large populations that are experiencing rising wealth and a high propensity to invest in education both domestically and abroad.

## Operating and financial review (continued)

**Review of Operations (continued)**

In India, IDP performed very strongly during the year, the company's performance benefited from the additional demand in FY18 caused by the Indian Government's decision in FY17 to remove the 500 and 1,000 rupee banknotes from circulation. IDP's IELTS business benefited from the return of the volume of tests impacted by demonetisation and that resulted in total Indian IELTS volumes being up more than 50% for the year.

In student placement, Indian placement volumes and revenue remained strong rising 60% and 63% respectively. This was driven by strong volume growth to all destinations with Canada and the UK particularly strong.

Growth in student placement revenue was also driven by further new office expansion in the regions with seven new offices opened in India alongside new offices in Bangladesh, Indonesia, China and Egypt. IDP now has the largest student placement service network in India with a total of 34 offices, and a total network of 110 student placement offices.

In China, IDP delivered another solid year of growth with student placement revenue rising 8%. This was underpinned by an 18% increase in volumes to the UK.

In China, IDP Education grants the British Council a licence to distribute IELTS. As consideration, IDP Education receives a fee from the British Council which is calculated as a percentage of each candidate's IELTS test fee for IELTS tests taken in China. Growth in IELTS testing in China during FY18 therefore contributed to IDP Education's earnings in its Asia segment.

Outside of India and China, IDP's performance in Asia was strongest in Taiwan, Japan and Nepal. In Taiwan, both IELTS and student placement were strong contributors to growth, while in Japan and Nepal IELTS was the driver of growth.

Offsetting this growth was weaker performance in Indonesia, Philippines and Singapore. Each of these countries recorded lower earnings for the year with a diverse range of factors impacting performance.

In English Language Teaching, IDP's Cambodian business had another strong year with the opening of the fifth campus during FY18 increasing capacity. The opening of the new campus removed the capacity constraint experienced in FY17 and will provide capacity for growth in FY19 and FY20 in Phnom Penh.

**Australasia**

The table below shows the company's results across its Australasian region which includes the following countries: Australia, Fiji, New Caledonia and New Zealand.

**Australasia Segment - Financial Summary**

| | | | | **Growth** | |
|---|---|---|---|---|---|
| | **Unit** | **FY18** | **FY17** | **$m** | **%** |
| Total Revenue | A$m | 68.5 | 69.0 | -0.5 | -0.7% |
| EBIT | A$m | 16.3 | 18.6 | -2.3 | -12.4% |
| EBIT Margin | % | 24% | 27% | | |
| % of Total Group Revenue | % | 14% | 18% | | |
| % of Total Group EBIT (Excl Corporate Overheads) | % | 13% | 17% | | |

Whilst recording another year of revenue and earnings decline, the performance of the Australasian segment showed signs of improvement during the year. This segment has recorded a decline in earnings for the last two years with competition in the English language testing market reducing IELTS volumes in Australia. IDP Education also operates an onshore student placement business which counsels and advises international students that are already in Australia on further or alternative study options. This business had a solid increase in revenue during FY18 with revenue from international students placed in Australia 18% above the levels recorded in FY17.

The declines in Australia from IELTS were partially offset by a strong performance in New Zealand where IELTS volumes were up over 50% in FY18. This result was in part driven by a change in New Zealand Government policy in November 2016 which now requires more applicants for the country's skilled migrant program to provide evidence of English Language proficiency.

## Operating and financial review (continued)

**Review of Operations (continued)**

**Rest of World**

The table below shows the company's results across the Rest of World region which includes: Argentina, Azerbaijan, Bahrain, Brazil, Canada, Colombia, Cyprus, Egypt, Germany, Greece, Iran, Italy, Jordan, Kazakhstan, Kuwait, Lebanon, Mexico, Nigeria, Oman, Pakistan, Qatar, Russia, Saudi Arabia, Spain, Switzerland, Ukraine, Uzbekistan, the United Arab Emirates ("UAE"), the United Kingdom, United States of America and Turkey.

**Rest of World Segment - Financial Summary**

| | | | | Growth | |
|---|---|---|---|---|---|
| | **Unit** | **FY18** | **FY17** | **$m** | **%** |
| Total Revenue | A$m | 113.8 | 87.2 | 26.6 | 30.5% |
| EBIT | A$m | 24.9 | 16.2 | 8.7 | 53.7% |
| EBIT Margin | % | 22% | 19% | | |
| % of Total Group Revenue | % | 23% | 22% | | |
| % of Total Group EBIT (Excl Corporate Overheads) | % | 20% | 15% | | |

The Rest of World recorded a strong performance for the year with the Middle East, UK and North America underpinning the segment's growth.

The Middle East's underlying performance was underpinned by solid IELTS volume growth with total test volumes across the region up from FY17. The strongest performers were Saudi Arabia, UAE, Iran and Kuwait with weakness in Pakistan offsetting some of this growth.

Student Placement was strongest in the UAE which recorded a 47% increase in total student placement volumes. The Middle East showed good volume growth to Australia, Canada and the UK destinations.

IDP's Canadian operations posted good results during the year. The onshore IELTS testing market in Canada has been growing strongly over the past two years with increased flow of international students and skilled migrants underpinning activity in that country.

Growth in the Rest of the World was also aided by the acquisition of Hotcourses Limited. This business was acquired on 31 January 2017 and therefore FY17 revenue and earnings are for 5 months only. Approximately 73% of Hotcourses' digital marketing revenue is generated in the United Kingdom through its contracts with UK institutions for digital marketing and lead generation. The business performed in line with expectations during the first full year under IDP ownership and is now fully integrated in the IDP business.

## Operating and financial review (continued)

**Review of Operations (continued)**

**Results by Product**

To aid the reader's understanding of the company's results, IDP Education has also prepared financial results by secondary segments which show revenue and gross profit by product. The analysis below discusses the operational and financial highlights for each of the company's products.

**Student Placement - Operational and Financial Summary**

| | | | | Growth | |
|---|---|---|---|---|---|
| | **Unit** | **FY18** | **FY17** | **Unit** | **%** |
| Volumes | | | | | |
| - Australia | 000's | 25.9 | 25.2 | 0.7 | 2.8% |
| - Multi-Destination | 000's | 13.9 | 9.3 | 4.6 | 49.5% |
| - Total Volumes | 000's | 39.7 | 34.5 | 5.2 | 15.1% |
| Revenue | | | | | |
| - Australia | A$m | 80.6 | 74.5 | 6.1 | 8.2% |
| - Multi-Destination | A$m | 42.1 | 28.9 | 13.2 | 45.7% |
| - Total Revenue | A$m | 122.7 | 103.4 | 19.3 | 18.7% |
| Gross Profit | A$m | 104.1 | 87.2 | 16.9 | 19.4% |
| Gross Profit Margin | % | 85% | 84% | | |
| Average Fee (A$) | | | | | |
| - Australia | A$ | 3,115 | 2,956 | 159 | 5.4% |
| - Multi-destination | A$ | 3,034 | 3,119 | -85 | -2.7% |
| - Total | A$ | 3,087 | 2,997 | 90 | 3.0% |

*Note: The Average Fee for Student Placement shown in this table is calculated as total Student Placement revenue divided by the number of courses IDP Education enrolled students into at its client education institutions during the period. Total Student Placement revenue includes all revenue associated with all placements including any revenue received from the student. Volume data to calculate the Average Fee only includes IDP Education client education institution course enrolments and excludes course enrolment volumes at education institutions that are not clients of IDP Education.*

Student placement volumes rose by 15% in FY18 reflecting a continuation of strong performance in recent years from this important business line.

Volumes to Australia rose by 3% which reflected a volume growth in both off-shore and on-shore volumes. For the off-shore market, strong growth in India was offset by some declines in South East Asia and smaller declines in China.

The company's investment in its 'multi-destination' strategy continued to drive growth with a 50% increase in total volumes to the UK, USA, Canada and New Zealand. Canada was a particular highlight in FY18 with volumes rising 126%. Past investment in counsellor capability, combined with positive regulatory settings in Canada, drove good conversion from increasing student demand.

Volumes to the UK continued to increase despite subdued conditions generally for study in the UK with IDP's focus on the higher quality institutions being rewarded by increasing market share and volume growth in India, China, UAE, Vietnam and Hong Kong.

## Operating and financial review (continued)

**Review of Operations (continued)**

The average student placement fee across the business was up 3% relative to that recorded in FY17. A range of factors contributed to this change, including:

- A strong increase in Australian fees which was driven by negotiated fee increases with a number of Australian clients;
- Higher underlying tuition fees, of which IDP Education takes a percentage for each successful placement;
- Lower average multi-destination fees resulting from a shift in the mix due to the exceptional growth in Canada where IDP realised a lower average commission.

**English Language Testing - Operational and Financial Summary**

| | | | | Growth | |
|---|---|---|---|---|---|
| | **Unit** | **FY18** | **FY17** | **Unit** | **%** |
| Volumes | 000's | 1,141.2 | 909.8 | 231.4 | 25.4% |
| Revenue | A$m | 306.8 | 250.7 | 56.1 | 22.4% |
| Gross Profit | A$m | 129.1 | 103.6 | 25.5 | 24.6% |
| Gross Profit Margin | % | 42% | 41% | | |
| Average Fee | A$ | 268.8 | 275.6 | -6.8 | -2.5% |

*The Average Fee for English Language Testing is the average of all English Language Testing revenue divided by the total number of IELTS tests conducted during the period.*

In English Language Testing, IDP Education's IELTS volumes rose 25.4% in FY18 taking the annual total to 1,141,200 tests – a record for IDP. This growth was an improvement on the 6.1% increase recorded in FY17 reflecting a successful strategy of diversification, new country expansion and the benefit of the additional demand in India after the demonetisation impact in FY17.

Asia remains the key engine for growth in IELTS for IDP with approximately 60% of the company's test volumes conducted in that region during FY18. As noted in the segmental commentary above, IDP's largest IELTS market, India, benefited from additional demand due to the demonetisation that occurred in FY17 which led to a 58% increase in Indian test volumes in FY18.

The company benefited from this additional demand but also expanded into new countries including Nigeria, Uzbekistan and Switzerland.

Volumes in Australia were down slightly on the prior year due to the impact of competition. A significant development during the period was the launch of computer-delivered testing in Australia in December. This was an important innovation which was first piloted in Melbourne in December 2017. IDP followed the successful pilot with a roll-out of computer-delivered testing capability across its Australian testing centres during H2 FY18.

The average fee for English Language Testing reflects a large number of variables across IDP's network of over 450 testing locations in over 50 countries. Decline in average test fees across the network is a result of a change in mix due to large increases in volume from lower priced markets such as India and the impact of foreign exchange movements.

## Operating and financial review (continued)

**Review of Operations (continued)**

### English Language Teaching - Operational and Financial Summary

| | Unit | FY18 | FY17 | Growth Unit | Growth % |
|---|---|---|---|---|---|
| Courses | 000's | 83.3 | 76.4 | 6.9 | 9.0% |
| Revenue | A$m | 22.2 | 21.2 | 1.0 | 4.7% |
| Gross Profit | A$m | 14.7 | 13.9 | 0.8 | 5.8% |
| Gross Profit Margin | % | 66% | 66% | | |
| Average Course Fee | A$ | 266.5 | 277.5 | -11.0 | -4.0% |

IDP Education's English Language teaching business comprises 10 schools across Cambodia, Vietnam and Thailand. The segment posted solid growth during FY18 with Cambodia continuing its strong performance of recent years. Total course volumes across the segment were up 9% for the year to a record 83,300 courses.

Revenue grew by a lower rate due to a lower average course fee. This reflects a change in mix with Cambodia volume representing a higher proportion of the total at a lower average price than the remainder of the business.

### Digital Marketing and Events - Financial Summary

| | Unit | FY18 | FY17 | Growth $m | Growth % |
|---|---|---|---|---|---|
| Revenue | A$m | 31.9 | 15.3 | 16.6 | 108.5% |
| Gross Profit | A$m | 19.8 | 6.0 | 13.8 | 230.0% |
| Gross Profit Margin | % | 62% | 39% | | |

The Digital Marketing and Events segment captures the revenue IDP generates from its student placement events and from its Hotcourses digital marketing business. Events are in-country recruitment fairs that IDP holds to promote its university clients to prospective students and their families. Universities that attend these events pay a fee to attend and meet IDP's students in each source country. The events are generally run on a cost-recovery basis and form a key part of the marketing activities for the company's student placement business.

The results in the table above reflect the first full year of ownership of Hotcourses in FY18 compared to FY17 which included only 5 months of Hotcourses digital marketing revenue and gross profit. Hotcourses digital marketing is the key driver of growth.

## Operating and financial review (continued)

**Review of Operations (continued)**

**Other - Financial Summary**

| | Unit | FY18 | FY17 | Growth $m | Growth % |
|---|---|---|---|---|---|
| Revenue | A$m | 3.6 | 3.6 | 0.0 | 0.0% |
| Gross Profit | A$m | 1.7 | 1.9 | -0.2 | -10.5% |
| Gross Profit Margin | % | 47% | 53% | | |

The company generated a small amount of other revenue in FY18 which was derived via contracted activities for development programs initiated by government or semi-government bodies and other miscellaneous items. Revenue from these activities was flat during the year.

**Financial Position**

The financial position of IDP Education remains strong. As at 30 June 2018 the company had total assets of $288.8m of which 46% related to intangible assets and the remaining being comprised primarily of cash, trade receivables and property, plant and equipment. Total assets exceeded total liabilities by $101.3m.

IDP Education has the following facilities with the National Australia Bank:

| | |
|---|---|
| Great British Pound £36,000,000 | Facility A: Acquisition funding 3-year unsecured Cash Advance loan facility for acquisition of Hotcourses Ltd |
| Australian Dollar $20,000,000 | Facility B: Multi-option loan facility 12-month unsecured to support both general corporate purposes and working capital requirements of the Group |
| Australian Dollar $7,000,000 | Facility C: Acquisition funding 3-year unsecured Cash Advance loan facility for investment in HCP Ltd |

During FY18, IDP Education drew down $22.7m from the loan facilities to fund the acquisition of Hotcourses and HCP Limited. The total drawn debt is $63.9m at 30 June 2018.

From a cash perspective the company had $48.8m of cash on the balance sheet as at 30 June 2018.

The company's strong financial position and positive cash flow enabled it to declare two dividends during the year comprising:

- Final Dividend – a $13.8m (5.5 cents per share) dividend for the six months ending 30 June 2017. This dividend was franked at 55%
- Interim Dividend - a $21.3m (8.5 cents per share) dividend for the six months ending 31 December 2017. This dividend was franked at 70%

Foreign Exchange

IDP Education currently earns revenues and incurs expenses in approximately 45 currencies and as a result is exposed to movements in foreign exchange rates. It is therefore important to consider IDP Education's financial performance on an underlying basis by excluding the impact of foreign exchange movements during the year.

## Operating and financial review (continued)

**Review of Operations (continued)**

To illustrate the impact of foreign currency exchange rate movements on the FY18 result, IDP Education has restated its FY17 results using the foreign exchange rates that were recorded in FY18. By comparing FY18 to the restated FY17 financials, IDP Education is able to isolate the underlying performance of the business during the period.

The table below summarises this analysis and shows that foreign exchange movements had a positive impact on the net profit after tax for the year. The strength of the Australian dollars contributed $0.7m favourable exchange movement in expenses, which are primarily from staff, occupancy and marketing expenses.

**Underlying Growth**

| | | | | Growth | |
|---|---|---|---|---|---|
| | **Unit** | **FY18** | **FY17 *** | **$m** | **%** |
| Total Revenue | A$m | 487.2 | 391.0 | 96.2 | 24.6% |
| Gross Profit | A$m | 269.5 | 213.0 | 56.5 | 26.5% |
| EBIT | A$m | 75.9 | 62.2 | 13.7 | 22.0% |
| NPAT | A$m | 51.5 | 42.6 | 8.9 | 20.9% |
| NPAT (Adjusted) ** | A$m | 55.3 | 43.7 | 11.6 | 26.5% |

** Calculated by restating the prior comparable period's financial results using the actual FX rates that were recorded during the current period*

*** Adjusted NPAT excludes acquired intangible amortisation*

IDP Education utilises a variety of methods to manage its foreign currency exchange rate risk. The key method is the use of forward exchange contracts and currency option contracts. IDP Education's hedging policy requires it to put in place hedges to cover the expected net cash operating expense of certain currencies including the GBP, INR, CNY, CAD and SGD.

**Business Strategy and Prospects**

The company's results improved during the period largely due to continued delivery of the organic growth strategy. This strategy has been designed to leverage past investment in the company's global network and capitalise on opportunities in the growing international student and high-stakes English language testing markets.

In Student Placement, the multi-destination strategy has underpinned the company's growth over recent years. The company has made substantial investments in establishing capabilities in the United States, the United Kingdom, Canada and New Zealand, and it expects to continue to benefit from these investments as it grows volumes to these destinations. The higher education market in Ireland was added as a destination in late FY18 and benefits should flow from opening the new destination to IDP students in FY20.

In Australia, IDP Education is well positioned to capitalise on continued growth in the number of international student enrolments to Australian institutions. IDP Education has a market leading position and strong reputation in its existing source countries for placing students to Australia. It will continue to build market share in these countries and will also look to leverage this capability and reputation by selectively and incrementally expanding its source country presence.

In addition to this organic volume growth IDP Education has commenced its drive to longer term growth in Student Placement through the use of technology. The first significant milestone of IDP Education's digital strategy focused on creating a digital platform for international students to engage with IDP Education beyond traditional face-to-face counselling service which is the main element of the current service offering. The launch of IDP Education's digital platform in May 2018 will enhance the experience of all of its customers and provide deeper and richer ways to engage with students and universities throughout the international student journey. The digital platform was live in seven countries at the end of FY18 and will be rolled out progressively across all IDP student placement offices in FY19.

## Operating and financial review (continued)

**Review of Operations (continued)**

IDP Education is also well positioned to capitalise on continued growth in global demand for high-stakes English language testing driven by the ongoing requirement for English language capability for study, work and migration. In addition to volume growth in existing markets, IDP will seek new growth through the expansion into new markets where it has not previously tested.

The IELTS partners, IDP Education, British Council and Cambridge Assessment, have also invested significantly in systems, testing approaches and technology to advance and improve the IELTS product. In December 2017 the IELTS computer delivered test was launched in Melbourne and was launched in other Australian cities in the second half of FY18.

**Risks**

An investor in IDP Education also needs to consider the risks that have the potential to impact the financial performance of the company going forward. A number of these key risks are summarised below.

**Regulatory risk** - The company generates a substantial amount of income from placing international students into education institutions in Australia, the United States, the United Kingdom, Canada and New Zealand. To the extent that any of these destination countries alter their higher education policies, immigration policies, regulation or visa requirements that reduce international student numbers or the number of student or migration visas that they grant, this will have a direct impact on IDP Education's student placement enrolment volumes and/or IELTS test volumes and therefore revenue. Changes by government immigration authorities in these destination countries that decrease or remove the acceptance of IELTS, increase competition from other providers or change the way that tests are administered, could also have a material and adverse impact on the company's financial position and performance.

**Geopolitical** - Political events and tension, unfavourable press, negative international relations and other international events may reduce the attractiveness of particular destination countries for students and other migrants originating from particular source countries. Any future circumstances which reduce the attractiveness of a particular destination country to foreign students or other migrants may have a material and adverse impact on the company's financial position and performance.

**Risks of operating a global company** – The global footprint which IDP Education operates across is exposed to regulatory, operating and management complexities and risks. There are certain risks inherent in doing business in foreign jurisdictions such as unexpected changes in legal and regulatory requirements, difficulties in managing foreign operations, longer payment cycles, problems in collecting accounts receivable, political instability, expropriation, nationalisation, the application of sanctions, embargoes or export and trade restrictions and war. There may also be foreign exchange controls which restrict or prohibit repatriation of funds and prohibitions and delays from customers or government agencies. These issues may arise from time to time, in the foreign jurisdictions in which IDP Education operates, which could have a material and adverse impact on the company's financial position and performance.

**Competition** – IDP Education operates in highly competitive markets across all of its geographies and products. IELTS in particular competes with a number of alternative high-stakes English language tests and, in most jurisdictions, IDP Education competes with the British Council as a distributor of IELTS. The following factors have the potential to reduce the number or profitability of IELTS tests that are conducted by IDP Education and therefore could have a material and adverse impact on the company's financial position and performance: (i) the cost of sitting alternative high-stakes English language tests being lower than that for IELTS; (ii) increased acceptance by destination education institutions and immigration departments of alternative high-stakes English language tests; (iii) an increase in the number of testing centres, and times, at which alternative high-stakes English language tests can be taken; (iv) alternative high-stakes English language tests being marked in quicker timeframes when compared to those for IELTS; or (v) alternative high-stakes English language tests being perceived to be fairer and/or more suited to people whose first language is not English.

**Relationship with Education Australia**

Education Australia, which represents 38 Australian universities, owns approximately 50% of the shares of IDP Education Limited. The Constitution of IDP Education Limited requires that:

- for such time as Education Australia is registered as the holder of at least 10% of the voting securities in the company (Securities), a majority of the Board is to comprise, collectively, Independent Directors (as defined in the Constitution) and representatives of Education Australia; or
- if at any time Education Australia ceases to hold at least 10% of the Securities, a majority of the Board is to comprise Independent Directors only.

Accordingly, there exists the potential for Education Australia to exert a significant degree of influence over the company's management and affairs and over matters requiring Shareholder approval, including (among other things) the election of Directors and the approval of significant corporate transactions.

# Directors' Report

## Directors

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

| Name | Particulars |
|---|---|
| Peter Polson | Non-Executive Director and Chairman |
| Andrew Barkla | Managing Director and Chief Executive Officer |
| Ariane Barker | Non-Executive Director |
| Professor David Battersby AM | Non-Executive Director |
| Chris Leptos AM | Non-Executive Director |
| Belinda Robinson | Non-Executive Director (resigned on 6 February 2018) |
| Professor Colin J. Stirling | Non-Executive Director (appointed on 6 February 2018) |
| Greg West | Non-Executive Director |

| Director | Experience, qualifications and expertise |
|---|---|
| **Peter Polson**<br>Non-Executive Director and Chairman | - Peter was appointed as a Non-Executive Director at IDP Education in March 2007<br>- Peter has broad experience in the financial services industry. He has held positions as Managing Director of the international funds management business with the Colonial Group and then as an executive with the Commonwealth Banking Group. In his role he had responsibility for all investment and insurance services, including the group's funds management, master funds, superannuation and insurance businesses and third party support services for brokers, agents and financial advisers<br>- He is the Chairman of Challenger Limited (listed company director since November 2003), Challenger Life Company Limited, Avant Group Insurance Limited and Very Special Kids<br>- He is also a director of Avant Mutual Group Limited and Avant Group Holdings Limited |
| **Andrew Barkla**<br>Chief Executive Officer and Managing Director | - Andrew was appointed as Chief Executive Officer and Managing Director at IDP Education in August 2015<br>- Andrew has extensive experience in the technology, services and software industry, with over 20 years of senior management experience in roles across Australia, New Zealand, Asia and North America<br>- Prior to joining IDP Education, Andrew worked for SAP as President of Australia and New Zealand<br>- Prior to his role at SAP, Andrew held leadership roles at Unisys, including as Vice President of Unisys' Asia Pacific Japan operations covering 13 countries, as Member of Unisys' Global Executive Committee and as Chairman of Unisys West, a technology services joint venture between BankWest and Unisys<br>- Earlier in his career, Andrew was Vice President and General Manager of PeopleSoft's Asia Pacific region |
| **Ariane Barker**<br>Non-Executive Director | - Ariane was appointed as a Non-Executive Director to IDP Education at the completion of its IPO in November 2015 and is Chair of the Audit and Risk Committee<br>- As the CEO of angel investor network, Scale Investors, Ariane works to facilitate investment for female entrepreneurs and gender balanced start-ups who are in early stage businesses. She is a board member of Commonwealth Superannuation Corporation (CSC), a member of the Murdoch Children's Research Institute (MCRI) Investment Committee, and is a former Board Member of Emergency Services & State Superannuation (ESSSuper)<br>- Ariane has extensive experience in international finance, risk management, and debt and equity capital markets, having worked in senior executive roles with JBWere (part of National Australia Bank), Merrill Lynch, Goldman Sachs and HSBC in the United States, Europe, Japan and Hong Kong<br>- Ariane holds a degree in Economics and Mathematics and is a graduate member of the Australian Institute of Company Directors (AICD) |
| **Professor David Battersby AM**<br>Non-Executive Director | - David was appointed as a Non-Executive Director at IDP Education in February 2011.<br>- He served as foundation Vice-Chancellor of Federation University Australia from 2014 to 2016 and was previously Vice-Chancellor of the University of Ballarat from 2006 to 2014. David's previous senior appointments have been at universities in Australia and New Zealand and he has undertaken consultancies for UNESCO, the OECD and various government agencies<br>- He was previously Chair of the Australian Regional Universities Network, is currently on |

| Director | Experience, qualifications and expertise |
|---|---|
| | the Board of Directors for the Melbourne Institute of Technology and is an Adjunct Professor at Southern Cross University<br>• David is also a Director on the Board of Education Australia Limited |
| **Chris Leptos AM**<br>Non-Executive Director | • Chris was appointed as a Non-Executive Director at IDP Education in November 2015<br>• His other Board roles include Chairman of .au Domain Administration Limited, Deputy Chairman of Flagstaff Partners, Non-Executive Director of Arete Capital Partners, and President of the National Heart Foundation<br>• He is also a member of the Advisory Board of The University of Melbourne Faculty of Business & Economics, the Advisory Council of Asialink, a Professorial Fellow at Monash University, a Governor of The Smith Family, and a Fellow of the AICD<br>• Chris was previously a Senior Partner with KPMG and Managing Partner Government at Ernst & Young where he had national responsibility for leading the public sector and higher education practice. Chris retired as Deputy Chairman of Linking Melbourne Authority in December 2015<br>• Earlier in his career, Chris was General Manager of Corporate Development for Western Mining Corporation and Chief of Staff to Senator John Button. He was a member of the Infrastructure Planning Council of Victoria and the Australian Information Economy Advisory Council<br>• Chris has lived and worked in Jakarta, Shanghai, Tokyo, London and Toronto, and in 2000 he was designated a Member of the Order of Australia for services to business and the community |
| **Professor Colin J. Stirling (appointed on 6 February 2018)**<br>Non-Executive Director | • Colin was appointed as a Non-Executive Director at IDP Education in February 2018<br>• Colin is the President and Vice-Chancellor of Flinders University and brings over thirty years of experience in international education in Australia, the UK and the USA<br>• He also holds a number of other board positions across health, academic and community organisations and is the current Chair of the Innovative Research Universities (IRU) group and a board member of the Business/Higher Education Round Table (BHERT)<br>• Educated at the University of Edinburgh, and with a PhD from the University of Glasgow, Colin began his award winning scientific career at the University of California, Berkeley |
| **Greg West**<br>Non-Executive Director | • Greg was appointed as a Non-Executive Director at IDP Education in December 2006.<br>• He is a Chartered Accountant with experience in investment banking and financial services. Greg is a Council Member of the University of Wollongong and a Director and Chair of the Audit Committee of UOWD Limited (a business arm of Wollongong University). Greg is also Chair of Education Australia and a Director of the St James Foundation<br>• Previously, Greg has worked at Price Waterhouse and held senior finance executive roles in investment banking with Bankers Trust, Deutsche Bank, NZI and other financial institutions |

## Company Secretary

The Company Secretary is Murray Walton, who is also the Chief Financial Officer of the Group. Murray Walton is a member of Chartered Accountants Australia and New Zealand and a graduate member of the Australian Institute of Company Directors (AICD).

## Meetings of Directors

The following table sets out the number of meetings (including meetings of committees of directors), held for the year and the number of meetings attended by each Director.

| | Board | | Audit and Risk Committee | | Remuneration Committee | | Nomination Committee | |
|---|---|---|---|---|---|---|---|---|
| | **Held** | **Attended** | **Held** | **Attended** | **Held** | **Attended** | **Held** | **Attended** |
| Peter Polson | 7 | 7 | 7 | 7 | 4 | 4 | 2 | 2 |
| Andrew Barkla | 7 | 7 | - | - | 4 | 4 | 2 | 2 |
| Ariane Barker | 7 | 7 | 7 | 7 | 4 | 4 | 2 | 2 |
| Professor David Battersby AM | 7 | 7 | - | - | - | - | 2 | 1 |
| Chris Leptos AM | 7 | 7 | - | - | 4 | 4 | 2 | 2 |
| Belinda Robinson(i) | 4 | 4 | - | - | - | - | 1 | 1 |
| Professor Colin J. Stirling(ii) | 3 | 3 | - | - | - | - | 1 | 1 |
| Greg West | 7 | 5 | 7 | 5 | - | - | 2 | 2 |

(i) Belinda Robinson retired as a director on 6 February 2018

(ii) Professor Colin J. Stirling was appointed as a director on 6 February 2018

## Principal activities

The Group’s principal activities during the year were:

- placement of international students into education institutions in Australia, UK, USA, Canada and New Zealand. Services include counselling, application processing and pre-departure guidance;
- distribution and administration of International English Language Testing System (“IELTS”) tests, a globally recognised high-stakes English language test for study, work and migration purposes. IDP Education is a co-owner of IELTS with the British Council and Cambridge Assessment;
- operation of English language schools in Vietnam, Cambodia and Thailand; and
- operation of online education search websites.

There was no significant change in the nature of these activities during the year.

## Significant changes in state of affairs

*Investment in HCP Limited*

On 4 July 2017, IDP Education completed the investment of a 20% equity interest in HCP Limited, a Chinese company specialising in delivering English language test preparation materials via social media and its mobile application.

The investment provides IDP Education with a significant opportunity to further develop its student placement business in China by securing access to a growing digital community of prospective international students.

It also provides IDP Education with exposure to the large IELTS test preparation market in China. HCP provides online courses to students to help improve their speaking, reading, writing and listening and has plans to expand its offering in English language teaching and test preparation.

The investment comprises two tranches with an upfront payment of $4.1m completed on 4 July 2017 followed by an estimated second tranche payment of $0.9m in August 2018 based on achievement of certain key performance indicators.

## Future developments

Likely developments in, and expected results of the operations of the Group in subsequent years are referred to on page 11 except to the extent disclosure of the information would be likely to result in unreasonable prejudice to the Group. The type of information not disclosed includes commercial in confidence information such as detailed operational plans and strategies that would provide third parties with a commercial advantage.

## Dividends

In respect of the financial year ended 30 June 2018, an interim dividend of 8.5 cents per share franked at 70% was paid on 29 March 2018. A final dividend of 6.5 cents per share franked at 60% was declared on 22 August 2018, payable on 27 September 2018 to shareholders registered on 7 September 2018.

In respect of the financial year ended 30 June 2017, an interim dividend of 7.0 cents per share franked at 50% was paid on 31 March 2017. A final dividend of 5.5 cents per share franked at 55% was paid on 28 September 2017.

## Events subsequent to balance date

There has not been any matter or circumstances occurring subsequent to the balance date that has significantly affected, or may significantly affect, the operation of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## Directors' interests in securities

The relevant interests of Directors in the Company's securities at the date of this report were:

| | Ordinary Shares | Options | Performance Rights |
|---|---|---|---|
| Peter Polson | 104,390 | - | - |
| Andrew Barkla | 61,022 | 4,150,000 | 535,254 |
| Ariane Barker | 18,867 | - | - |
| Professor David Battersby AM | 7,231 | - | - |
| Chris Leptos AM | 25,867 | - | - |
| Professor Colin J. Stirling | - | - | - |
| Greg West | 74,617 | - | - |

## Environmental regulation and performance

The Group's operations are not subject to any significant environmental regulations under the government legislation of the countries it operates in. The Group's environmental footprint is small and arises primarily from the energy used and materials consumed in its offices. The Board believes that the consolidated company has adequate systems in place for the monitoring of environmental regulations.

## Indemnification and insurance of officers

During the year, the Company paid a premium in respect of a contract insuring the Directors of IDP Education (as named above), the Company Secretary, Murray Walton, and all executive officers of IDP Education against a liability incurred as such a Director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such an officer or auditor.

## Non-audit services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are essential and will not compromise their independence.

Details of amounts paid or payable to the auditor Deloitte Touche Tohmatsu for audit and non-audit services provided during the year are outlined in Note 23 to the financial statements.

The Directors have considered the non-audit services provided during the year and are satisfied these services are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in *APES 110 'Code of Ethics for Professional Accountants*' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 39.

## Rounding of amounts to the nearest thousand dollars

The Group is of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191* dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' report and financial report are rounded off to the nearest thousand dollars, except where otherwise stated, to the nearest dollar.

## Corporate governance policies

IDP Education is committed to strong and effective governance frameworks and complies with the Australian Securities Exchange Corporate Governance Principles and Recommendations 3rd Edition (ASX Principles). IDP Education's Corporate Governance Statement, in addition to corporate governance policies are available in the Investor Centre – Corporate Governance section of the company Website, at *https://investors.idp.com/Investor-Centre/?page=Corporate-Governance*

## Letter from Remuneration Committee Chairman

Dear Shareholder,

On behalf of the Board I am pleased to introduce IDP Education Limited's (IDP) 2018 Remuneration Report for which we seek your support at our Annual General Meeting in October 2018.

The financial year just completed was our second full year of operation as an ASX listed company. As detailed in the financial section of our Report, 2018 was again a record year in terms of both revenue and earnings and I am pleased to say we remain committed to deliver on our ambitious growth plans.

IDP is a global education company operating in over 30 countries around the world with a significant presence in Asia, the Middle East, North America, Europe and Australasia. Our technology delivery strategy continues to be the cornerstone of our business.

Throughout the year management has:

- Commenced the roll-out of the global digital platform as part of the company's transformation program;
- Launched computer delivered IELTS testing which was a significant innovation for IELTS;
- Introduced a new commercial product for our university clients which leveraged IDP and Hotcourses; Group's combined online and physical office networks;
- Delivered a 25 per cent increase in English Language Testing (IELTS) volumes across the network, and
- Recorded a 15 per cent increase in Student Placement volumes, notably a 126 per cent increase in volumes to Canada.

In line with our profit growth we are increasing the distribution of franked dividends. The IDP share price (at the date of writing this report) has increased more than threefold since our IPO in November 2015. This positive outcome for shareholders has resulted in management achieving above target awards under the annual incentive plan and are currently on track to meet the long-term hurdles set under our long-term equity incentive schemes.

The Board considers its role in setting executive remuneration policies and practices to be a key responsibility. During FY18, the Remuneration Committee participated in a full day workshop to review and evaluate all aspects of IDP's executive KMP remuneration and to ensure we remain competitive and contemporary. Key initiatives arising from this workshop, included:

- Updated benchmark assessments for all key executive positions;
- Re-evaluation of IDP's remuneration strategy positioning, including minor changes;
- Consideration of alternate remuneration data sources to manage our diverse geographies;
- Maintenance of conservative fixed remuneration with an emphasis on 'at risk' remuneration;
- Consideration of a 'performance gateway' and 'culture and values gateway' as a precondition to STI awards;
- Minimum shareholding guidelines were introduced;
- Change of control and termination provisions in IDP's equity incentive plans were reviewed to ensure they met contemporary standards;
- Performance targets for short term and long term incentives were evaluated and updated to ensure they remain contemporary and supportive of shareholder outcomes;
- An overall 'health check' of our policies, guidelines and procedures was also completed with only minimal changes needed.

As Chair of the Board's Remuneration Committee I have, during the past year, continued to work closely with my fellow Directors, our external advisers and management to ensure that we have an effective remuneration framework which will continue to drive results and motivate staff at all levels in the organisation. During the year I have also met with a number of our key shareholders and the proxy advisers representing institutional investors.

Overall, our remuneration framework remains broadly unchanged and is designed to:

- Provide a key link between IDP's financial performance and key business strategies;
- Ensure that remuneration outcomes are consistent with IDP's short and long-term objectives, including risk management practices that will support and sustain performance over the long term; and
- Attract and retain key talent appropriate to our business model.

Our external and independent advisers confirm that our current practices meet contemporary standards.

In FY18, we have not fully adjusted remuneration to reflect our current standing (Market Capitalisation) on the ASX and the significant uplift in the company's market value, believing it is prudent to ensure the sustainability of your company's performance and market positioning for, at least, a further twelve months.

Your Board will remain vigilant in ensuring that executive remuneration is primarily performance focussed and aligned to achieving our business strategies and enhancing shareholder value. As we grow and expand our capabilities we will need to evolve and adapt our remuneration responses to meet market and to ensure we have the very best talent available to deliver our world class services to our customers for the benefit of all stakeholders.

Peter Polson

Chair of the Remuneration Committee

Melbourne

22 August 2018

## Remuneration Report

Key management personnel (KMP) is defined by AASB 124 Related Party disclosures. Only Directors, the Chief Executive Officer and executives that have the authority and responsibility for planning, directing and controlling the activities of IDP Education Limited (IDP Education), directly or indirectly and are responsible for the entity's governance are classified as KMP.

Belinda Robinson was appointed as one of Education Australia's 3 representatives to the board of Directors of IDP Education (Board) at the time of the initial public offering and listing. Following the announcement on 1 November 2017 of her resignation from her role as Chief Executive Officer of Universities Australia, Belinda Robinson resigned her roles as a Non-Executive Director of Education Australia and IDP Education Ltd, effective 31 January 2018 and 6 February 2018 respectively.

Professor Colin Stirling was appointed as the replacement representative of Education Australia to the Board and was appointed by the Board as a casual vacancy effective 6 February 2018.

The KMP of IDP Education for the year ended 30 June 2018 were:

| | Position | Period as KMP |
|---|---|---|
| **Executive KMP** | | |
| Andrew Barkla | Managing Director and Chief Executive Officer | 17 August 2015 to Current |
| Murray Walton | Chief Financial Officer and Company Secretary | 9 March 2010 to Current |
| Warwick Freeland | Chief Strategy Officer and Managing Director IELTS Australia | 10 August 2008 to Current |
| **Non-Executive Directors** | | |
| Peter Polson | Chair | 21 March 2007 to Current |
| Ariane Barker | Non-Executive Director | 12 November 2015 to Current |
| Professor David Battersby AM | Non-Executive Director | 9 February 2011 to Current |
| Chris Leptos AM | Non-Executive Director | 12 November 2015 to Current |
| Belinda Robinson | Non-Executive Director | 12 November 2015 to 6 February 2018 |
| Greg West | Non-Executive Director | 4 December 2006 to Current |
| Professor Colin Stirling | Non-Executive Director | 6 February 2018 to Current |

### Remuneration governance

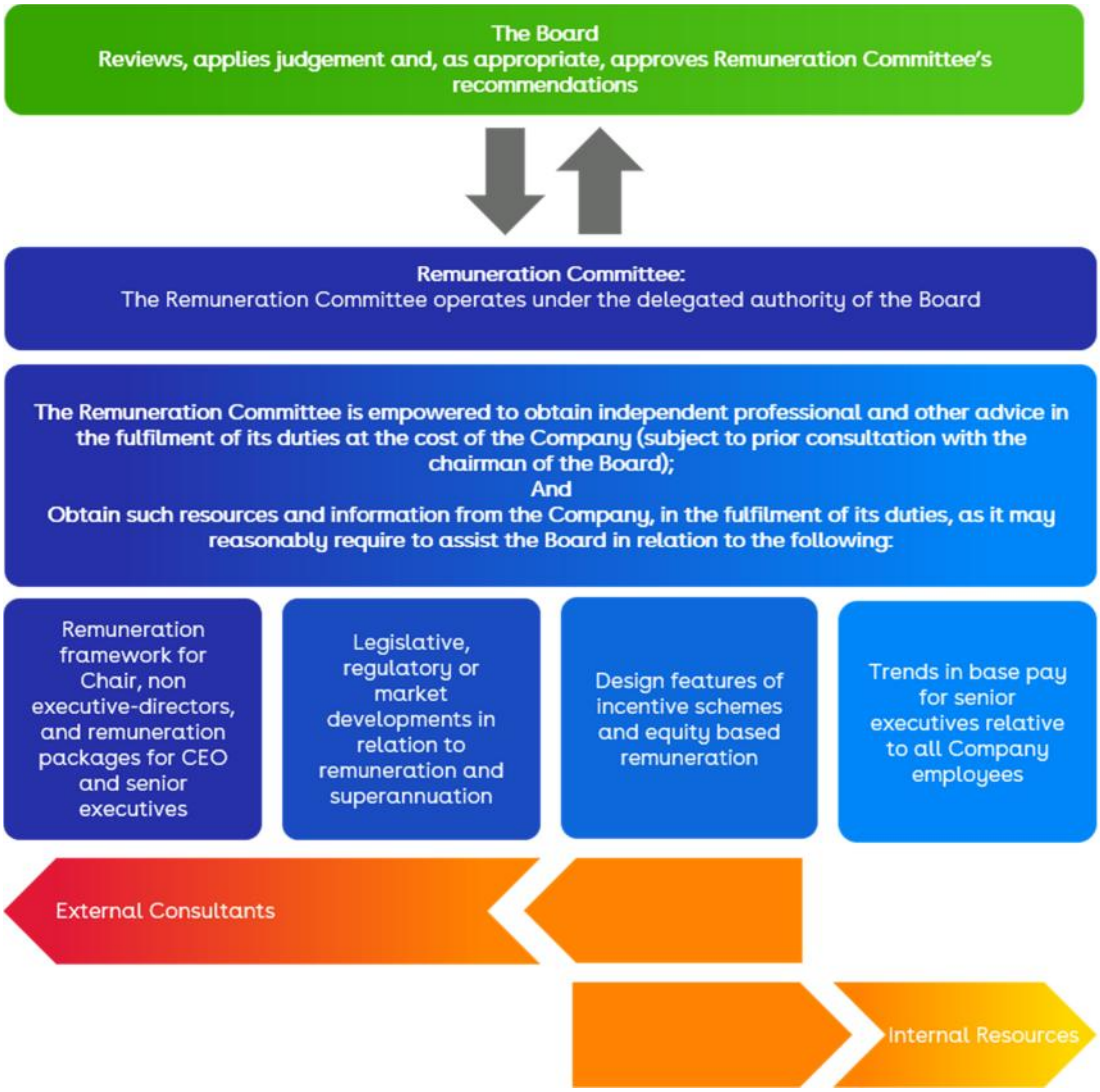
This section of the Remuneration Report describes the role of the Board and the Remuneration Committee, and the use of remuneration consultants when making remuneration decisions.

### Role of the Board and the Remuneration Committee

The Board is responsible for IDP Education's remuneration strategy and policy. Consistent with this responsibility, the Board has established the Remuneration Committee (the Committee).

In summary, the role of the Committee includes assisting and advising the Board on remuneration policies and practices for the Board, the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), senior executives and other persons whose activities, individually or collectively, affect the financial soundness of the Company. The Committee advises the Board on remuneration practices and policies which are fair and responsible, by recognising the correlation between performance targets and reward, in order to provide the best value to shareholders.

The Committee's role and interaction with the Board, internal and external advisors, are further illustrated below:




Further information on the Committee's role, responsibilities and membership is contained in the Corporate Governance Statement. The Remuneration Committee Charter can also be viewed in the Investor Centre, Corporate Governance section of the IDP Education website.

As at 30 June 2018, the Committee comprised the following Non-Executive Directors:

- Mr Peter Polson (Chair)
- Ms Ariane Barker
- Mr Chris Leptos

The Directors' Report provides information regarding:

- skills, experience and expertise of the Committee members; and
- number of meetings and attendance of members at the Committee meetings

### Use of remuneration consultants

The Board directly engages external advisors to provide input to the process of reviewing Executive KMP and Non-Executive Director remuneration. A Use of Remuneration Consultants Policy was approved by the Board on 21 August 2017.

During FY18, Crichton and Associates Pty Limited (Crichton and Associates) were engaged by the Board to provide recommendations in relation to long-term incentive programmes. Crichton and Associates were paid $9,415 for these services.

The following arrangements were made to ensure that the remuneration recommendations have been made free from undue influence:

- Crichton and Associates takes instructions from an independent non-executive Director and the Committee and is accountable to the Board for all work completed;
- During the course of any assignment, Crichton and Associates may seek input from management, however deliverables are provided directly to the Remuneration Committee and considered by the Board; and
- Professional fee arrangements are agreed directly with the Remuneration Committee Chairman.

As a consequence, the Board is satisfied that the remuneration recommendations were made free from undue influence from any member of the KMP.

In addition to providing remuneration recommendations, Crichton and Associates also provided services relating to other aspects of remuneration of the Group's employees, including the provision of valuation services and IDP Education Employee Incentive Plan (IDIP) award offer documentation and advice. For these services Crichton and Associates was paid $46,481 during FY18.

### Remuneration strategy

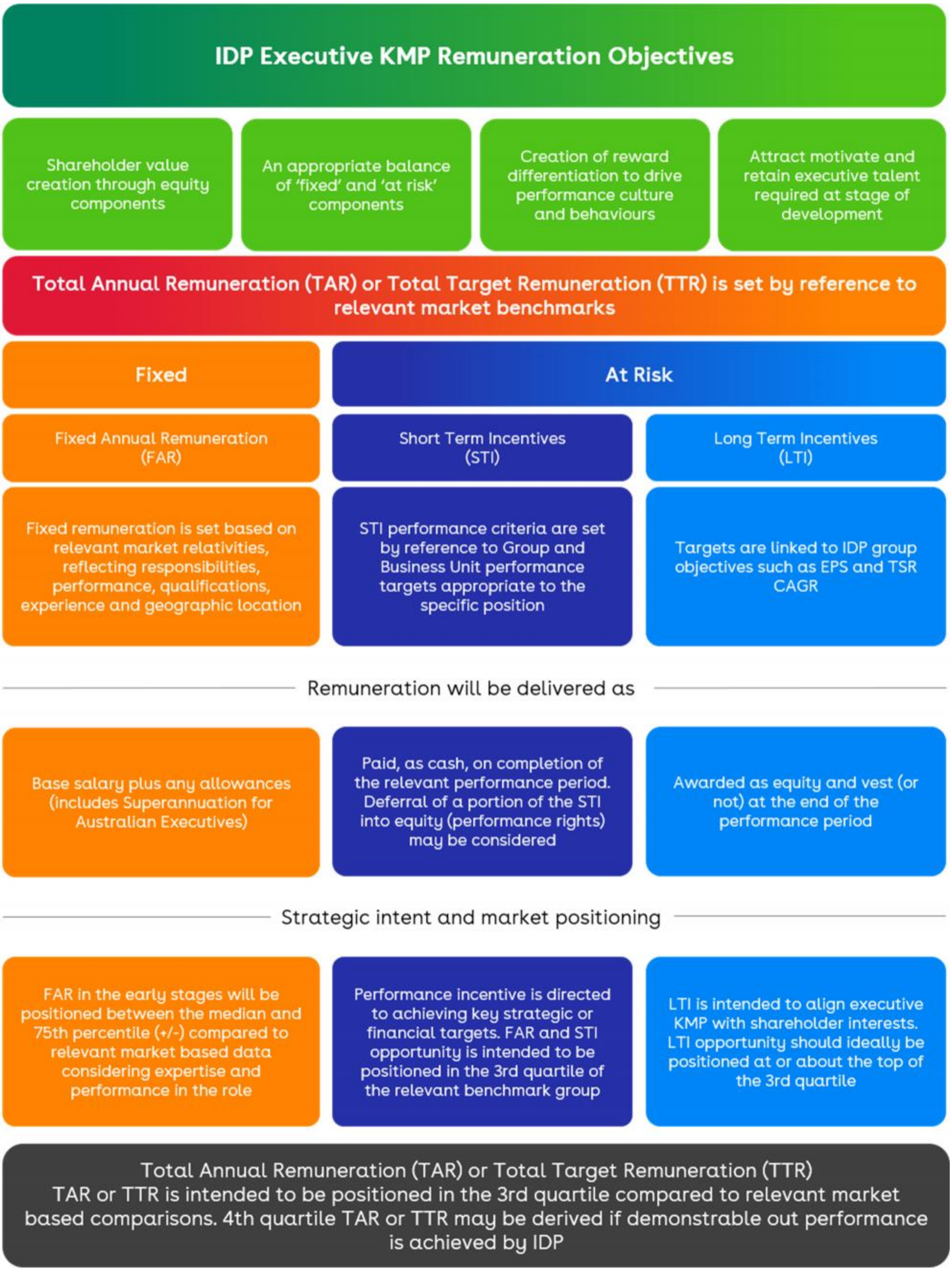
IDP Education's Board, Executive and Employee Remuneration Policy (Policy) aims to set employee and executive remuneration that is fair, competitive and appropriate for the markets in which it operates and is mindful of internal relativities. IDP Education aims to ensure that the mix and balance of remuneration is appropriate to reward fairly, attract, motivate and retain senior executives and other key employees.

Specific objectives of IDP Education's remuneration strategy include:

- provide a fair and competitive (internal and external) fixed annual remuneration for all positions under transparent policies and review procedures;
- link executive rewards to shareholder value accretion by providing appropriate equity (or equivalent) incentives to selected senior executives and employees linked to long-term company performance and core values;
- provide competitive total rewards to attract and retain appropriately skilled employees and executives;
- have a meaningful portion of remuneration 'at risk', dependent upon meeting pre-determined benchmarks, both short (annual) and long term (3+ years); and
- establishing appropriate, demanding performance hurdles for any executive equity incentive remuneration.

The Policy is drafted in such a way as to enable IDP Education to navigate the complexity of managing remuneration across numerous geographies and varying job roles.

Executive KMP remuneration strategy and objectives are summarised in the table overleaf:


IDP Executive KMP Remuneration Objectives
Shareholder value creation through equity components
An appropriate balance of 'fixed' and 'at risk' components
Creation of reward differentiation to drive performance culture and behaviours
Attract motivate and retain executive talent required at stage of development
Total Annual Remuneration (TAR) or Total Target Remuneration (TTR) is set by reference to relevant market benchmarks
Fixed
At Risk
Fixed Annual Remuneration (FAR)
Short Term Incentives (STI)
Long Term Incentives (LTI)
Fixed remuneration is set based on relevant market relativities, reflecting responsibilities, performance, qualifications, experience and geographic location
STI performance criteria are set by reference to Group and Business Unit performance targets appropriate to the specific position
Targets are linked to IDP group objectives such as EPS and TSR CAGR
Remuneration will be delivered as
Base salary plus any allowances (includes Superannuation for Australian Executives)
Paid, as cash, on completion of the relevant performance period. Deferral of a portion of the STI into equity (performance rights) may be considered
Awarded as equity and vest (or not) at the end of the performance period
Strategic intent and market positioning
FAR in the early stages will be positioned between the median and 75th percentile (+/-) compared to relevant market based data considering expertise and performance in the role
Performance incentive is directed to achieving key strategic or financial targets. FAR and STI opportunity is intended to be positioned in the 3rd quartile of the relevant benchmark group
LTI is intended to align executive KMP with shareholder interests. LTI opportunity should ideally be positioned at or about the top of the 3rd quartile
Total Annual Remuneration (TAR) or Total Target Remuneration (TTR)
TAR or TTR is intended to be positioned in the 3rd quartile compared to relevant market based comparisons. 4th quartile TAR or TTR may be derived if demonstrable out performance is achieved by IDP

### Executive remuneration mix

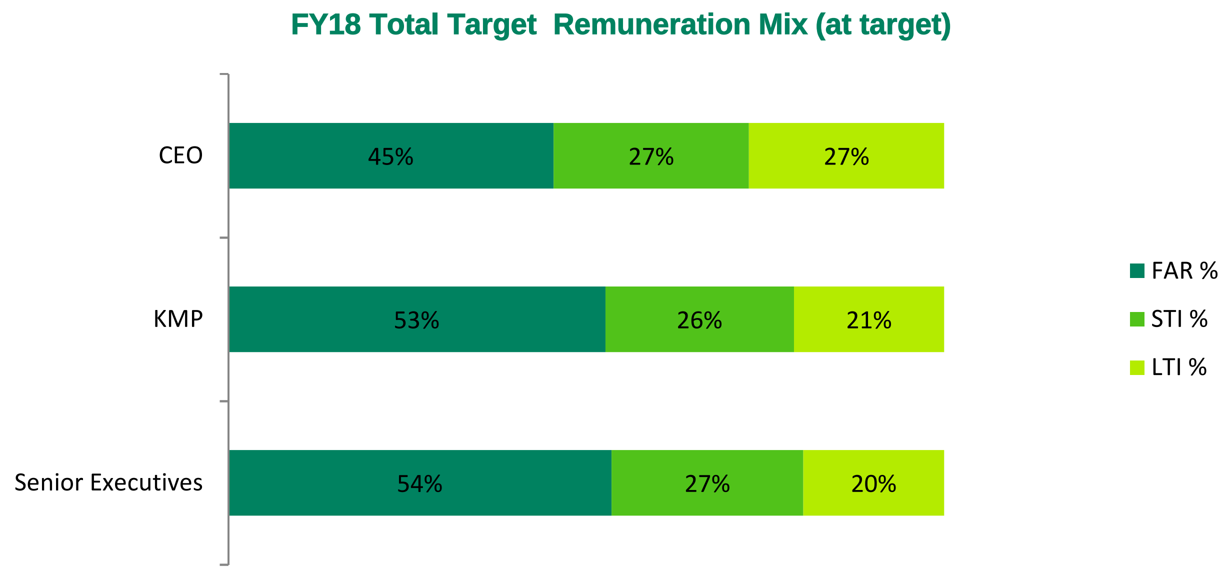
IDP Education endeavours to provide an appropriate and competitive mix of remuneration components balanced between fixed and at risk and paid both in cash and deferred equity.

### Remuneration overview

As discussed above, each executive's total remuneration package may be comprised of the following elements:

- Fixed Annual Remuneration (FAR)
- At-Risk Remuneration:
  - Short Term Incentive (STI)
  - Long Term Incentive (LTI)

The illustration below provides an overview of the average FY18 Total Target Remuneration mix for the CEO, other Executive KMP and senior executives of IDP Education.




In determining the Total Target Remuneration mix for the CEO and Executive KMP, the Board has considered the following:

- Setting market competitive Fixed Annual Remuneration;
- Achieving an appropriate mix between fixed and variable remuneration;
- Providing a meaningful short term incentive (up to 60% of FAR) aligned to the achievement of key financial and other organisational metrics over the current financial year; and
- Providing meaningful long term incentives (up to 60% of FAR) aligned to meeting benchmark earnings (EPS CAGR) and share growth (relative TSR) targets over a three (3) year performance period.

It is intended that if the benchmark targets are achieved then IDP Education will have outperformed and the CEO and Executive KMP will achieve top quartile remuneration benefits.

The reward mix and performance expectations are reviewed annually. No change to the targeted remuneration mix is proposed for FY19.

### Executive KMP Remuneration Mix

The mix of remuneration for the Executive KMP in FY18 is shown in the following table and a detailed description of each is discussed in more detail overleaf:

| | Fixed Annual Remuneration($) | Short Term Incentive (At-Target)($)[1] | Short Term Incentive (Stretch)($)[2] | Long Term Incentive (At-Target)($)[3] |
|---|---|---|---|---|
| Executive KMP | | | | |
| Andrew Barkla | 800,000 | 480,000 | 624,000 | 480,000 |
| Murray Walton | 451,000 | 225,500 | 293,150 | 157,850 |
| Warwick Freeland | 428,978 | 214,489 | 278,836 | 193,040 |

### Fixed Annual Remuneration

Fixed Annual Remuneration represents the fixed portion of executive remuneration and includes base salary, salary packaged benefits, allowances and employer superannuation contributions.

IDP Education's approach to FAR settings is to aim to position all executives between the median and 75th percentile.

The table below applied logically, can be used as a guide to IDP Education's remuneration setting process.

| Relative Positioning | Comments |
|---|---|
| 1st Quartile | Inexperienced in the position but coping, or an experienced employee exhibiting performance gaps. |
| 2nd Quartile | Experienced in the position, usually with a minimum of two years' service. In the competent range, but capable of further development or improvement in the role. |
| Mid-point (Median) | Fully competent executive or employee making a consistent and sound contribution, coping with and sometimes exceeding all the demands of the position. |
| 3rd Quartile | Very experienced executive, exhibiting demonstrably superior performance. External appointees would often be recruited at this level. That is between the median and 75th percentile. The majority of senior executives would be likely to be paid at the 62.5th percentile, that is the middle of the 3rd quartile. |
| 4th Quartile | Only **outstanding** and **strategically critical** executives would be remunerated in the 4th quartile. Care should be taken not to duplicate or inflate TAR through STI or LTI at this level. Less than 10% of executives likely to be paid at this level. |

Executive KMP FAR is tested regularly for market competitiveness by reference to appropriate independent and externally sourced comparable benchmark information, including comparable Australian Securities Exchange (ASX) listed companies, and based on a range of size criteria including market capitalisation taking into account an executive's responsibilities, performance, qualifications, experience and geographic location.

FAR adjustments, if any, are made with reference to individual performance, an increase in job role or responsibility, changing market circumstances as reflected through independent benchmark assessments or through promotion.

Any adjustments made to Executive KMP remuneration are approved by the Board, based on Committee recommendations referring to benchmarking data and the guidance of the independent remuneration consultant where appropriate.

[1] For Executive KMP, the STI is the total payment at-target as a % of the FAR
[2] For Executive KMP, STIs have a stretch component that is designed to encourage above at-target performance
[3] For Executive KMP, the LTI refers to the value, at-target, of any grant as a % of FAR. The number of performance rights issued is calculated by dividing the LTI value by share price (ASX: IEL) at close of trade on 30 June 2017

### Short term incentive

IDP Education has target based short term incentive plans in place for all Executive KMP.

Performance criteria set for STI plans will reflect fundamental strategic or performance objectives to ensure a focused and successful performance incentive program.

The target and maximum annual STI that may be awarded to Executive KMP is expressed as a percentage of FAR.

The key features of the STI plan are as follows:

| | |
|---|---|
| Purpose | The STI arrangements at IDP Education are designed to reward executives for achievement against annual performance targets set by the Board at the beginning of the performance period. The STI program is reviewed annually by the Remuneration Committee and approved by the Board. |
| Performance criteria | During FY18, the key performance criteria of IDP Education were directed to achieving the following Board approved targets:<br>- Earnings before Interest and Taxation;<br>- Delivery of Delight digital platform milestones including jointly leading and ensuring milestones are met, engaging in change management and ensuring critical roles are resourced<br>- Computer delivered IELTS launched in IDP Direct Testing Units in Australia and 2018-2019 global rollout plan agreed and finalised ; and<br>- Growth in the number of Applied students in UK and Canada and Australia On Shore Student Placements OR revenue growth in the Hotcourses New Insights and Digital Agency Business revenue (Hotcourses only);<br>The Board believes that these specific STI performance criteria support the strategic direction of the Company and will encourage an increase in financial performance, market share and shareholder returns. |
| Rewarding performance | The STI performance weightings are determined under a predetermined matrix with the Board determination final.<br>Executive KMP's STI have a stretch component that is designed to encourage above at-target performance. |
| Performance period | The STI performance period is for the financial year 1 July to 30 June. |
| STI payment | The current year, CEO's STI is paid as follows:<br>- STI amounts up to $100,000 and 50% of any amount above $100,000 will be paid in cash subsequent to 30 June 2018 following completion of the performance period and audit of the associated financial statements; and<br>- 50% of any amount above $100,000 will be satisfied through a grant of service rights issued under the IDIP. The service rights are subject to a vesting condition that the CEO remains employed for a further 12 months from the end of the financial year.<br>The STI of remaining Executive KMPs was paid in cash subsequent to 30 June 2018 following completion of the performance period and audit of the associated financial statements. |

The performance criteria set are reviewed annually to ensure they align with the company's evolving business strategies and goals. The FY19 performance criteria will consist of a mix of financial (EBITDA) and non-financial criteria.

### Long-term incentives

The IDP Education Employee Incentive Plan (IDIP) is the Company's employee equity scheme.

The IDIP has been structured to meet contemporary equity design standards and enables the Company to offer selected employees a range of different remuneration, incentive awards or employee share scheme interests.

The flexible design accommodates current and future needs with seven possible award structures available. The Company has currently offered five of these, Performance Rights, Options Service Rights, Deferred Shares and Exempt Shares (general employees only), to Executive KMP and senior executives as depicted overleaf.

### Awards Available Under the IDIP

| Performance Rights | Options | Service Rights | Exempt Shares | Cash Rights | Deferred Shares | Stock Appreciation Rights |
|---|---|---|---|---|---|---|

IDP Education has offered a range of LTI Awards under the IDIP. These Awards are designed to assist in the motivation and retention of senior management and other selected employees in line with contemporary market practice.

The vesting conditions were designed to achieve the long term objectives of the Company as identified by the Board at the time of granting and the individual LTI awards have included some of the following criteria:

- Achievement of forecast or target financial performance measures, including:
  - Net Profit After Tax[1]
  - Earnings per share compound annual growth;
  - Total shareholder return (TSR) compound annual growth; or
  - IDP comparative ranking of TSR against the component companies in the ASX300 Discretionary Index.

The vesting conditions also include continuous service over the three year LTI period to promote talent retention.

The relevant performance conditions and the hurdle rates are reviewed, updated and approved annually.

The Board believes that the specific LTI vesting conditions will ensure the alignment of KMP's awards with shareholder returns. As at 30 June 2018, Executive KMP participate in the following Awards under the IDIP:

- the FY16 Award;
- the FY17 Award;
- the FY18 Award
- the FY17 Special Incentive Award;
- the CEO Incentive Award Options; and
- Deferred STI grant.

The key features of the LTI plans are as follows:

| LTI Award | Performance rights/options awards | Grant date | Grant date fair value ($) | Exercise price ($) | Vesting conditions | Vesting date |
|---|---|---|---|---|---|---|
| FY16 Award - Tranche 1 | Performance Rights | 19-Oct-15 | 1.68 | 0.00 | Achievement of pro forma forecast earnings for FY16 per the IDP Prospectus<br>Continuous employment with IDP until Vesting Date<br>Completion of the IPO before 17 Aug 2017 with a market capitalisation (based on offer price) of at least $400m | 31-Aug-18 |
| FY16 Award - Tranche 2 | Performance Rights | 19-Oct-15 | 1.68 | 0.00 | NPAT CAGR from 1 July 2016 to 30 June 2018[2]<br>Continuous employment with IDP until Vesting Date<br>Completion of the IPO before 17 Aug 2017 with a market capitalisation (based on offer price) of at least $400m | 31-Aug-18 |

[1] Achievement of the NPAT forecast provided to investors in the prospectus is a Performance Condition of the FY16 LTI award which vests on 31 August 2018. NPAT is not a performance measure in the FY17 or FY18 LTI Awards.
[2] The FY15 NPAT will be used as a basis for vesting calculations. 50% of performance rights available will vest if a NPAT CAGR of 5% is achieved. 100% of performance rights available will vest if a NPAT CAGR of 6% or greater is achieved. Vesting will be on a pro rata basis between 5% and 6%

| LTI Award | Performance rights/options awards | Grant date | Grant date fair value ($) | Exercise price ($) | Vesting conditions | Vesting date |
|---|---|---|---|---|---|---|
| FY16 Award - Tranche 3 | Performance Rights | 19-Oct-15 | 0.95 | 0.00 | Total shareholder return (TSR) CAGR from grant date to 30 June 2018[1]<br>Continuous employment with IDP until Vesting Date<br>Completion of the IPO before 17 Aug 2017 with a market capitalisation (based on offer price) of at least $400m | 31-Aug-18 |
| FY17 Award – Tranche 1 | Performance Rights | 14-Sep-16 | 3.83 | 0.00 | EPS target CAGR over the period 1 July 2016 to 30 June 2019[2]<br>Continuous employment with IDP until Vesting Date | 31-Aug-19 |
| FY17 Award – Tranche 2 | Performance Rights | 14-Sep-16 | 2.56 | 0.00 | Ranking in TSR against the ASX300 Discretionary Index from grant date to 30 June 2019[3]<br>Continuous employment with IDP until Vesting Date | 31-Aug-19 |
| FY18 Award – Tranche 1 | Performance Rights | 15-Sep-17 | 5.45 | $0.00 | EPS target CAGR over the period 1 July 2017 to 30 June 2020[4]<br>Continuous employment with IDP until Vesting Date | 31-Aug-20 |
| FY18 Award – Tranche 2 | Performance Rights | 15-Sep-17 | 4.07 | $0.00 | Ranking in TSR against the ASX300 Discretionary Index from grant date to 30 June 2020[5]<br>Continuous employment with IDP until | 31-Aug-20 |
| FY17 Special Incentive Award – Tranche 1 | Restricted Shares[6] | 14-Sep-16 | 4.02 | 0.00 | First production deployment of computer-based IELTS<br>Continuous employment with IDP until Vesting Date[7] | 31-Dec-17 |
| FY17 Special Incentive Award – Tranche 2 | Performance Rights | 14-Sep-16 | 3.93 | 0.00 | Deployment of a strong, agreed IELTS product roadmap<br>Continuous employment with IDP until Vesting Date | 30-Sep-18 |

[1] A market capitalisation of $360m at grant date will be used as a basis for vesting calculations. 50% of performance rights available will vest if a TSR CAGR of 6% is achieved. 100% of performance rights available will vest if a TSR CAGR of 8% or greater is achieved. Vesting will be on a pro rata basis between 6% and 8%

[2] The base EPS has been set at adjusted FY16 EPS of 15.09c. 50% of performance rights available will vest if an EPS CAGR of at least 10% is achieved. 100% of performance rights available will vest if an EPS CAGR of at least 12% is achieved. Vesting will be on a pro rata basis between 10% and 12%

[3] 50% of performance rights available will vest if IDP Education Ltd achieves a ranking in TSR against the ASX 300 Discretionary Index of greater than or equal to 50th percentile. 100% of performance rights available will vest if IDP Education Ltd achieves a ranking in TSR against the ASX 300 Discretionary Index of greater than or equal to 75th percentile. Vesting will be on a pro rata basis between 50th percentile and 75th percentile achievement

[4] The base EPS has been set at FY17 EPS of 16.58 cents per share. 50% of performance rights available will vest if an EPS CAGR of at least 12% is achieved. 100% of performance rights available will vest if an EPS CAGR of at least 14% is achieved. Vesting will be on a pro rata basis between 12% and 14%

[5] 50% of performance rights available will vest if IDP Education Ltd achieves a ranking in TSR against the ASX 300 Discretionary Index of greater or equal to 50th percentile. 100% of performance rights available will vest if IDP Education Ltd achieves a ranking in TSR against the ASX 300 Discretionary Index of greater or equal to 75th percentile. Vesting will be on a pro rata basis between 50th percentile and 75th percentile achievement

[6] This award has now vested and was converted to shares with a 12 month service vesting requirement

[7] An additional Service Vesting Condition requires that participant maintains continuous employment with IDP Education Ltd for 12 months from the Vesting Date

| LTI Award | Performance rights/options awards | Grant date | Grant date fair value ($) | Exercise price ($) | Vesting conditions | Vesting date |
|---|---|---|---|---|---|---|
| CEO Incentive Award<br>– Tranche 1 | Options[1] | 17-Aug-15[2] | 0.60 | 1.44 | Achievement of pro forma forecast earnings for FY16 per the IDP Prospectus<br>Continuous employment with IDP until Vesting Date | 31-Aug-18 |
| CEO Incentive Award<br>– Tranche 2 | Options[4] | 17-Aug-15[5] | 0.60 | 1.44 | NPAT CAGR from 1 July 2016 to 30 June 2018<br>Continuous employment with IDP until Vesting Date | 31-Aug-18 |
| CEO Incentive Award<br>– Tranche 3 | Options[4] | 17-Aug-15[5] | 0.51 | 1.44 | Total shareholder return (TSR) CAGR from grant date to 30 June 2018<br>Continuous employment with IDP until Vesting Date | 31-Aug-18 |

## Termination benefits

The remuneration and other terms of employment are covered in a formal employment contract. The employment contracts include provisions requiring a minimum notice period by both the Executive and by IDP Education. If either party provides notice, the Company may make a payment in lieu of notice.

For all Executive KMP, in the event of serious misconduct or other circumstances warranting summary dismissal, notice is not required.

The minimum notice period for each Executive KMP are set out in the below table.

| | Contract type | Notice period by Executive | Notice period by IDP Education | Redundancy Payment |
|---|---|---|---|---|
| **Executive KMP** | | | | |
| Andrew Barkla | Ongoing | 3 months | 9 months | If terminated by reason of redundancy, 5 weeks notice and 34 weeks severance |
| Murray Walton | Ongoing | 3 months | 3 months | General redundancy terms apply as mandated by the Fair Work Act 2009 |
| Warwick Freeland | Ongoing | 13 weeks | 26 weeks | General redundancy terms apply as mandated by the Fair Work Act 2009 |

## Clawback provisions

The Board approved an executive remuneration malus and clawback policy in relation to performance based remuneration on 21 August 2017. No circumstances have arisen during the current year that have required application of this policy.

[1] Upon exercise and payment of the exercise price, each option entitles the holder to receive one share. However, If the Board determines that for a taxation, legal regulatory or compliance reason it is not appropriate to allocate Shares to Mr Barkla, the Board may elect to pay Mr Barkla a cash amount equal to the value of a Share

[2] Options expire if not exercised five years after the Grant Date

### Linking remuneration and performance in FY18

### FY18 STI performance scorecard

The Board believes that the specific STI performance criteria set encourage the delivery of improved financial performance, an increase in market share and the resulting improvement in shareholder returns.

The relationship between the Executive KMP at-risk remuneration and IDP Education's performance can be demonstrated through the STI performance criteria, their weighting and the outcome achieved for FY18.

| Measure | Weighting | Outcome |
|---|---|---|
| Earnings before Interest and Taxation | 50.0% | 59.6% |
| Delivery of Delight digital platform milestones including jointly leading and ensuring milestones are met, engaging in change management and ensuring critical roles are resourced | 30.0% | 37.5% |
| Computer delivered IELTS launched in IDP Direct Testing Units in Australia and 2018-2019 global rollout plan agreed and finalised | 10.0% | 10.0% |
| SP Applied Student numbers for UK and Canada and Australia onshore – 22% growth against FY17 actual | 10.0% | 12.9% |
| | **100.0%** | **122.5%** |

These measures were selected for the STI as the Executive KMP together with the full Global Leadership Team need to remain focused on the successful delivery and embedding of the digital transformation and implementation of Computer Delivered IELTS to position IDP for future financial success.

The Board is delighted that the Company and the executive team have delivered these at or above target results.

The table below provides a summary of STI payments achieved for the FY18 performance year:

| FY2018 | STI At-Target $ | STI Achieved[1,2] $ | At-Target STI Achieved % | At-Target STI Forfeited % |
|---|---|---|---|---|
| **Executive KMP** | | | | |
| Andrew Barkla | 480,000 | 588,087[3] | 122.5% | NIL |
| Murray Walton | 225,500 | 276,278 | 122.5% | NIL |
| Warwick Freeland | 214,489 | 262,788 | 122.5% | NIL |

The above target results are reflected in IEL's superior NPAT and EPS results reflecting a strong alignment between executive remuneration and company performance.

**LTI performance scorecard**

LTI Awards are granted annually to all executive KMP. Apart special incentive awards, LTI awards are granted as performance rights with both an earnings (EPS CAGR) and TSR (IDP TSR relative to XDKAI component company TSR) over a set three year performance period. There are currently three unvested LTI grants and the current expectation of each grant for performance vesting is as follows:

[1] STI amounts indicated to have been achieved in respect of the year ended 30 June 2018 are subject to annual review and only payable subsequent to 30 June 2018 upon ratification and recommendation by the Remuneration Committee and approval by the Board
[2] With the exception noted in footnote 3, all STI amounts will be paid in cash
[3] An STI amount of $244,043 satisfied through a grant of service rights issued under the IDIP. The service rights are subject to a vesting condition that the CEO remains employed for a further 12 months from the end of the financial year

| Award | EPS CAGR Vesting Date | Estimated % to vest | TSR relative Vesting Date | Estimated % to vest |
|---|---|---|---|---|
| FY16 LTI | 31 August 2018 | 100% | 31 August 2018 | 100% |
| FY17 LTI | 31 August 2019 | 100% | 31 August 2019 | 100% |
| FY18 LTI | 31 August 2020 | 100% | 31 August 2020 | 100% |

IDP is on track to exceed the EPS CAGR hurdle rates set for each LTI Award grant. The EPS CAGR for the period from 1 July 2014 to 30 June 2017 was 14.04% and 17.8% for the period from 1 July 2015 to 30 June 2018. If IDP's budgeted and forecast earnings are achieved the three year EPS CAGR targets for FY19 and FY20 will also be achieved.

We believe the EPS CAGR component of LTI awards provides a very strong correlation between IDP's performance and Executive KMP remuneration outcomes.

IDP's TSR performance relative to the component companies in the ASX/S&P300 Discretionary Index (XDKAI) also reflects IDP's outperformance as it has consistently achieved top quartile performance over an extended period. Accordingly, the Board believes the reward outcomes for executives of a series of years are in alignment with company performance.

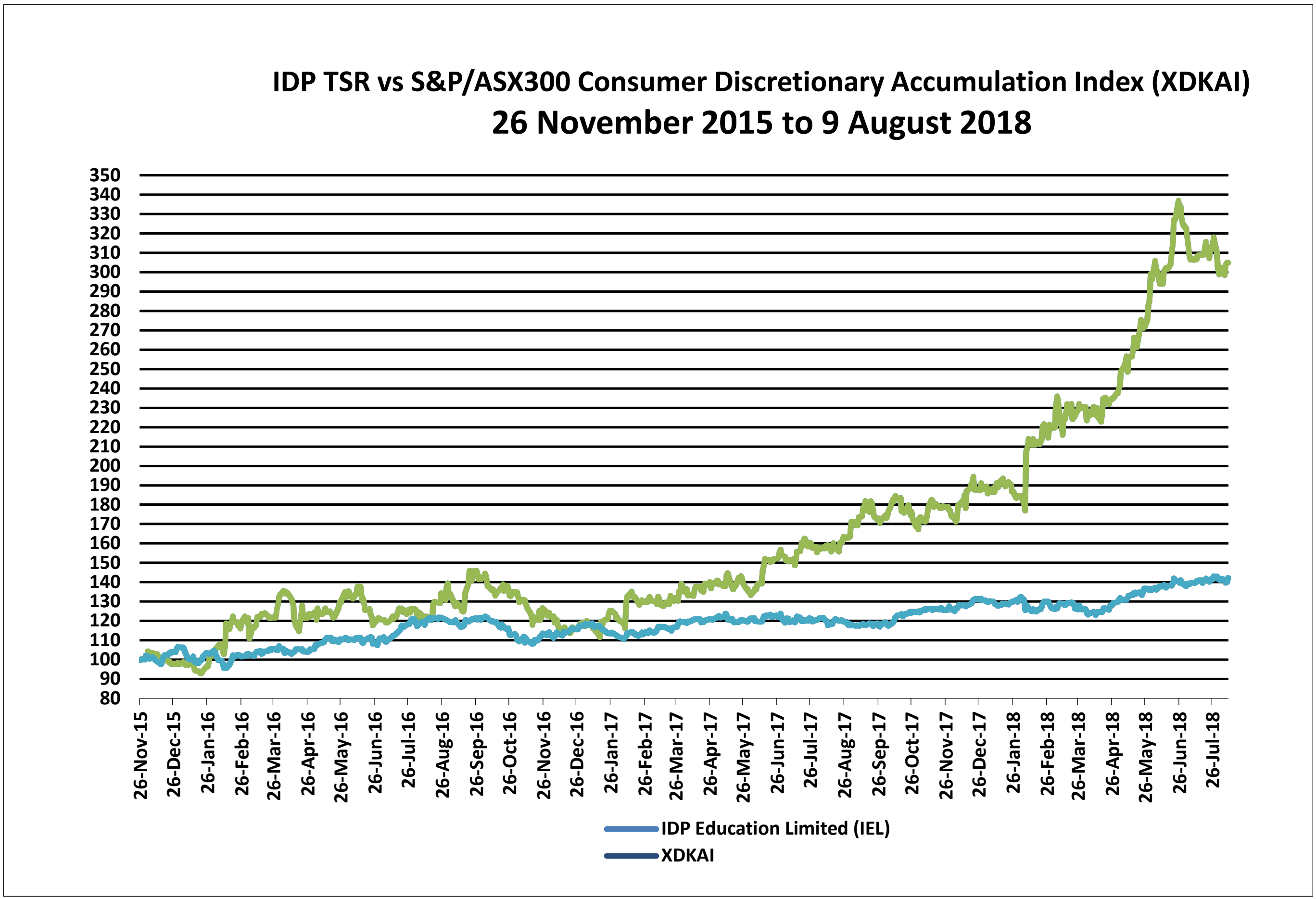
The following table provides a summary of critical performance metrics showing IDP Education's financial performance for FY18 and the four years prior

| Measure | FY18 | FY17 | FY16 | FY15 | FY14 |
|---|---|---|---|---|---|
| Revenue ($000) | 487,155 | 394,187 | 361,636 | 309,865 | 256,627 |
| *% change from previous year* | *23.58%* | *9.00%* | *16.71%* | *20.75%* | *18.33%* |
| Earnings Before Interest and Taxation ($000) | 75,924 | 61,224 | 53,664 | 45,150 | 38,621 |
| *% change from previous year* | *24.01%* | *14.09%* | *18.86%* | *16.91%* | *24.51%* |
| Net Profit after Taxation ($000) | 51,481 | 41,511 | 39,914 | 31,476 | 27,987 |
| *% change from previous year* | *24.02%* | *4.00%* | *26.81%* | *12.47%* | *32.05%* |
| Basic Earnings per Share (cents per share) | 20.59 | 16.58 | 15.95 | 12.58 | 11.18 |
| *% change from previous year* | *24.18%* | *3.95%* | *26.79%* | *12.52%* | *32.00%* |
| *3 year Compound Annual Growth Rate (Conventional)* | *17.85%* | *14.04%* | *23.49%* | *n/a* | *n/a* |
| Diluted Earnings per Share (cents per share) | 20.14 | 16.20 | 15.60 | 12.48 | 11.15 |
| *% change from previous year* | *24.32%* | *3.85%* | *25.00%* | *11.93%* | *31.64%* |
| Dividend (cents per share) | 14.00 | 12.50 | 19.18 | 15.58 | 13.18 |
| *% change from previous year* | *12%* | *-34.83%* | *23.11%* | *18.21%* | *49.94%* |
| Share Price as at 30 June ($) | 10.58 | 5.09 | 4.12 | n/a | n/a |
| Average STI payout as a % at-target for eligible KMPs | 122.5% | 119.5% | 94.3% | n/a | n/a |

The component of LTI awards linked to TSR relative performance is a less reliable measure of performance. Because this measure requires a calculation of all the component companies in the XDKAI (approximately 60 companies) the exact performance can only be assessed at the final test date (30th June each year). An indicative only result can be shown by comparing IDP's TSR relative to the XDKAI as set out in the following chart.

As indicated IDP has consistently outperformed the XDKAI. Since listing IDP has achieved an approximate 205% TSR, whereas the XDKAI has returned 42%. This means shareholder returns for IDP shareholders are in excess of four times the selected comparator index over the relevant period.

Accordingly, based on early indications a 100% vesting of the TSR component of the LTI awards are expected although subject to independent verification and testing at the relevant test dates.


IDP TSR vs S&P/ASX300 Consumer Discretionary Accumulation Index (XDKAI)
26 November 2015 to 9 August 2018
350
340
330
320
310
300
290
280
270
260
250
240
230
220
210
200
190
180
170
160
150
140
130
120
110
100
90
80
26-Nov-15
26-Dec-15
26-Jan-16
26-Feb-16
26-Mar-16
26-Apr-16
26-May-16
26-Jun-16
26-Jul-16
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26-Nov-17
26-Dec-17
26-Jan-18
26-Feb-18
26-Mar-18
26-Apr-18
26-May-18
26-Jun-18
26-Jul-18
IDP Education Limited (IEL)
XDKAI

## Executive KMP Statutory remuneration table

The following table has been prepared in accordance with Section 300A of the Corporations Act 2001 and details statutory accounting expense of all remuneration-related items for the Executive KMP. Note that the table below accrues amounts for equity awards being expensed throughout FY18 that are yet to, and may never, be realised by the Executive KMP member. The statutory remuneration table below differs from the FY18 KMP remuneration mix outlined on page 25. Differences arise mainly due to the accounting treatment of shared-based payment (performance rights and options).

| | | Short term Benefits | | | | Post-employment Benefits | Long-Term Benefits | Equity-Based Benefits | |
|---|---|---|---|---|---|---|---|---|---|
| | Financial Year | Salary $ | STI[1] $ | Other $ | Non-monetary Benefits $ | Superannuation $ | Leave[2] $ | Performance rights/ Options[3] $ | Total remuneration $ |
| **Executive KMP** | | | | | | | | | |
| Andrew Barkla | 2018 | 775,000 | 588,087 | - | - | 25,000 | 13,690 | 1,126,705 | 2,528,482 |
| | 2017 | 765,000 | 573,681 | - | - | 35,000 | 7,545 | 1,083,840 | 2,465,066 |
| Murray Walton[4] | 2018 | 426,000 | 276,278 | - | - | 25,000 | 23,916 | 113,556 | 864,750 |
| | 2017 | 357,078 | 233,656 | - | - | 33,922 | 20,985 | 136,876 | 782,517 |
| Warwick Freeland | 2018 | 403,978 | 262,788 | - | - | 25,000 | 14,430 | 326,588 | 1,032,784 |
| | 2017 | 381,484 | 248,885 | - | - | 35,000 | 16,453 | 378,018 | 1,059,840 |
| **Total** | **2018** | **1,604,978** | **1,127,153** | - | - | **75,000** | **52,036** | **1,566,849** | **4,426,016** |
| | **2017** | **1,503,562** | **1,056,222** | - | - | **103,922** | **44,983** | **1,598,734** | **4,307,423** |

[1] Short-term STI includes both cash and service rights expected to be paid/vest in future periods as a result of FY17 and FY18 STI outcomes
[2] Long-Term benefits represents long service leave accrued but untaken during the year
[3] Equity based benefits represent benefits issued under the LTI. It represents statutory accounting expenses measured under AASB 2, which are based on the grant date fair value, amortised on a straight line basis over the vesting period. Refer to share based payments accounting policy (note 21) for further details
[4] The CFO role was benchmarked in 2017with FAR found to be materially under market. As indicated in the 2017 Annual Remuneration report, the CFO's FAR was increased above market increases as a continuation of the gradual progression to market benchmark

**Executive KMP LTI outcomes**

| Executive KMP | LTI Award | Performance rights/ options awards | Grant date | Opening balance | Granted during year | Exercised during year | Forfeited during year | Closing balance – vested and exercisable | Closing balance – vested but not exercisable | Closing balance - unvested |
|---|---|---|---|---|---|---|---|---|---|---|
| Andrew Barkla | The FY16 Award | Performance Rights | 19-Oct-15 | 324,447 | - | - | - | - | - | 324,447 |
| | The FY17 Award | Performance Rights | 14-Sep-16 | 116,505 | - | - | - | - | - | 116,505 |
| | CEO Incentive Award | Options | 17-Aug-15 | 4,150,000 | - | - | - | - | - | 4,150,000 |
| | The FY18 Award | Performance Rights | 27-Sep-17 | - | 94,302 | - | - | - | - | 94,302 |
| Murray Walton | Prospectus Award | Performance Rights | 21-Feb-14 | 39,757 | - | 39,757 | - | - | - | - |
| | 2014 LTI Award | Performance Rights | 21-Feb-14 | 79,431 | - | 79,431 | - | - | - | - |
| | The FY16 Award | Performance Rights | 19-Oct-15 | 96,695 | - | - | - | - | - | 96,695 |
| | The FY17 Award | Performance Rights | 14-Sep-16 | 33,216 | - | - | - | - | - | 33,216 |
| | The FY18 Award | Performance Rights | 27-Sep-17 | - | 31,011 | - | - | - | - | 31,011 |
| Warwick Freeland | Prospectus Award | Performance Rights | 21-Feb-14 | 47,144 | - | 47,144 | - | - | - | - |
| | 2014 LTI Award | Performance Rights | 21-Feb-14 | 94,288 | - | 94,288 | - | - | - | - |
| | The FY16 Award | Performance Rights | 19-Oct-15 | 147,574 | - | - | - | - | - | 147,574 |
| | The FY17 Award | Performance Rights | 14-Sep-16 | 45,490 | - | - | - | - | - | 45,490 |
| | FY17 Special Incentive Award | Performance Rights | 14-Sep-16 | 97,087 | - | - | - | - | 48,544 | 48,543 |
| | The FY18 Award | Performance Rights | 27-Sep-17 | - | 37,925 | - | - | - | - | 37,925 |

### Executive KMP shareholdings

Details of ordinary shares held by the Executive KMP and their related parties are provided in the table below:

| Executive KMP | Opening balance | Performance/ Service Rights exercised | Options exercised | Net change other[1] | Closing balance |
|---|---|---|---|---|---|
| Andrew Barkla | - | 61,022 | - | - | 61,022 |
| Murray Walton | 116,131 | 119,188 | - | (198,619) | 36,700 |
| Warwick Freeland | - | 141,432 | - | (141,432) | - |

### Non-executive Director remuneration strategy and framework

Non-executive Director fees are determined by reference to external survey data, taking account of the Group's relative size and business complexity.

Under the Constitution, the Directors decide the total amount paid to all Directors as remuneration for their services as a Director. However, under the ASX Listing Rules, the total amount paid to all Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company in a general meeting. This amount, being the fee pool limit, has been fixed at $1,500,000 per financial year.

Each Non-executive Director's total remuneration package may be comprised of the following elements:

- Base fee
- Committee fee

Non-executive Directors have no entitlement to STI or LTI.

No retirement benefits are payable to Non-executive Directors.

The below table provides further details relating to the components of the Non-executive Director remuneration.

| Component | Delivered | Description |
|---|---|---|
| Base Fee | Cash | The base fee represents remuneration for service on the IDP Education Board. The base fee for the Chair represents the entire remuneration for that role. |
| Committee Chair fees | Cash | Committee fees represent remuneration for chairing Board committees. |
| Committee Member Fees | Cash | Committee member fees represent remuneration for service on an IDP Board Committee. |

Non-executive Director remuneration was increased during the year (effective from March 2018) based on an independent assessment of Board remuneration of comparable companies. This increase represents the first increase in fees since the company listed in November 2015. The current Non-executive Director remuneration fee structure is shown in the following table:

| | $ per annum |
|---|---|
| **Base Fee** | |
| Chair | 350,000 |
| Non-executive Director | 150,000 |
| **Committee Chair Fees** | |
| Audit and Risk Committee | 20,000 |
| Nomination Committee | 10,000 |
| Remuneration Committee | 10,000 |

[1] These amounts represent ordinary shares purchased or sold directly or indirectly by the Executive KMP during the financial year. These transactions have no connection with the roles and responsibilities as employees of the Group

| | $ per annum |
|---|---|
| **Committee Member Fees** | |
| Audit and Risk Committee | 10,000 |
| Nomination Committee | 10,000 |
| Remuneration Committee | 10,000 |

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## Non-executive Director statutory remuneration table

| | | | Short term Benefits | | | Post-employment | Long term Benefits | Equity-Based Benefits | |
|---|---|---|---|---|---|---|---|---|---|
| | Financial Year | Directors Fees | STI $ | Other $ | Non-monetary | Superannuation $ | Leave $ | Performance rights[1] | Total remuneration $ |
| **Non-executive Directors** | | | | | | | | | |
| Peter Polson[2] | 2018 | 213,088 | - | - | - | 20,243 | - | - | 233,331 |
| | 2017 | 159,814 | - | - | - | 15,182 | - | 29,780 | 204,776 |
| Ariane Barker | 2018 | 149,997 | - | - | - | - | - | - | 149,997 |
| | 2017 | 129,996 | - | - | - | - | - | - | 129,996 |
| Professor David Battersby AM[2] | 2018 | 118,719 | - | - | - | 11,278 | - | - | 129,997 |
| | 2017 | 105,019 | - | - | - | 9,977 | - | - | 114,996 |
| Greg West[2] | 2018 | 121,763 | - | - | - | 11,567 | - | - | 133,330 |
| | 2017 | 105,019 | - | - | - | 9,977 | - | 20,834 | 135,830 |
| Chris Leptos AM | 2018 | 121,763 | - | - | - | 11,567 | - | - | 133,330 |
| | 2017 | 105,019 | - | - | - | 9,977 | - | - | 114,996 |
| Professor Colin Stirling[3] | 2018 | 55,583 | - | - | - | 5,280 | - | - | 60,863 |
| | 2017 | - | - | - | - | - | - | - | - |
| **Former Non-executive Directors** | | | | | | | | | |
| Belinda Robinson[4] | 2018 | 63,136 | - | - | - | 5,998 | - | - | 69,134 |
| | 2017 | 105,019 | - | - | - | 9,977 | - | - | 114,996 |
| **Total** | **2018** | **844,049** | **-** | **-** | **-** | **65,935** | **-** | **-** | **909,984** |
| | **2017** | **709,886** | - | - | - | **55,090** | - | **50,614** | **815,590** |

[1] Equity based benefits represent benefits issued as one-off pre-IPO award. The values are based on the grant date fair value, amortised on a straight line basis over the vesting period, refer to share based payments accounting policy (note 21) for further details

[2] The Chair and directors fees were set upon listing to reflect relevant market benchmarks for an ASX listed entity. The year on year increase reflects the increase in directors fees effective 1 March 2018 to align with market

[3] Colin Stirling was appointed on 6 February 2018 and, therefore the directors fees and superannuation detailed reflects the part year period that he was employed

[4] Belinda Robinson resigned on 6 February 2018 and, therefore, the directors fees and superannuation detailed for FY18 reflect the part year period that she was employed

## Non-executive Director shareholdings

Details of ordinary shares held by the Non-Executive Directors and their related parties are provided in the table below:

| | Opening balance | Performance Rights exercised | Options exercised | Net change other[1] | Closing balance |
|---|---|---|---|---|---|
| **Non-executive Directors** | | | | | |
| Peter Polson | 104,390 | - | - | - | 104,390 |
| Ariane Barker | 18,867 | - | - | - | 18,867 |
| Professor David Battersby AM | - | - | - | 7,231 | 7,231 |
| Greg West | 74,617 | - | - | - | 74,617 |
| Chris Leptos AM | 18,867 | - | - | 7,000 | 25,867 |
| Professor Colin Stirling | - | - | - | - | - |
| **Former Non-executive Directors** | | | | | |
| Belinda Robinson | 6,000 | - | - | (6,000) | - |

1. These amounts represent ordinary shares purchased or sold directly or indirectly by the Non-Executive Directors during the financial year. In relation to former Non-executive Directors, these amounts include the number of shares held at the time of their resignation. These transactions have no connection with the roles and responsibilities as employees of the Group

**Minimum Shareholding requirement**

A minimum shareholding policy was introduced during the year. The policy requires Non-executive Directors to hold shares to the equivalent value of the annual base fee. A transition period of three years is allowed to achieve this minimum holding.

This report is made in accordance with a resolution of the Directors

| | |
|---|---|
| Peter Polson | Andrew Barkla |
| Chairman | Managing Director |

Melbourne

22 August 2018

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
Australia

Tel: +61 3 9671 7000
www.deloitte.com.au

22 August 2018

The Board of Directors
IDP Education Limited
Level 8, 535 Bourke Street
Melbourne VIC 3000

Dear Board Members

**IDP Education 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 IDP Education Limited.

As lead audit partner for the audit of the financial statements of IDP Education Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Genevra Cavallo

Genevra Cavallo
Partner
Chartered Accountants

# Financial report

## Consolidated statement of profit or loss
## for the year ended 30 June 2018

| | Notes | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|---|
| Revenue | 3 | 487,155 | 394,187 |
| Expenses | 4.1 | (397,859) | (325,822) |
| Depreciation and amortisation | | (13,114) | (7,141) |
| Finance income | | 370 | 326 |
| Finance costs | 4.2 | (2,424) | (1,043) |
| Share of loss of associate | | (258) | - |
| **Profit for the year before income tax expense** | | **73,870** | **60,507** |
| Income tax expense | 5 | (22,389) | (18,996) |
| **Profit for the year** | | **51,481** | **41,511** |
| | | | |
| Profit for the year attributable to: | | | |
| Owners of IDP Education Limited | | 51,524 | 41,511 |
| Non-controlling interests | | (43) | - |
| | | **51,481** | **41,511** |

| **Earnings per share for profit attributable to ordinary equity holders** | **Notes** | **30 June 2018** | **30 June 2017** |
|---|---|---|---|
| Basic earnings per share (cents per share) | 7 | 20.59 | 16.58 |
| Diluted earnings per share (cents per share) | 7 | 20.14 | 16.20 |

The above statement should be read in conjunction with the accompanying notes.

## Consolidated statement of comprehensive income

## for the year ended 30 June 2018

| | Notes | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|---|
| **Profit for the year** | | 51,481 | 41,511 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Net investment hedge of foreign operations | | (2,824) | (983) |
| Exchange differences arising on translating the foreign operations | | 3,584 | 1,272 |
| Gains/(losses) arising on changes in fair value of hedging instruments entered into for cash flow hedges | | | |
| Forward foreign exchange contracts | | 644 | 6 |
| Cumulative gains/(losses) arising on changes in fair value of hedging instruments reclassified to profit or loss | | 701 | 2,353 |
| Income tax related to gains/(losses) recognised in other comprehensive income | 5 | (179) | (528) |
| *Items that will not be reclassified subsequently to profit or loss:* | | - | - |
| Other comprehensive income for the year, net of income tax | | 1,926 | 2,120 |
| **Total comprehensive income for the year** | | **53,407** | **43,631** |

| | | | |
|---|---|---|---|
| Total comprehensive income attributable to: | | | |
| Owners of IDP Education Limited | | 53,451 | 43,631 |
| Non-controlling interests | | (44) | - |
| | | **53,407** | **43,631** |

The above statement should be read in conjunction with the accompanying notes.

## Consolidated statement of financial position
## as at 30 June 2018

| | Notes | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 17 | 48,809 | 41,958 |
| Trade and other receivables | 8 | 53,438 | 41,519 |
| Derivative financial instruments | 20 | 1,245 | 484 |
| Current tax assets | | 2,844 | 804 |
| Other current assets | 12 | 13,072 | 9,815 |
| **Total current assets** | | **119,408** | **94,580** |
| **NON-CURRENT ASSETS** | | | |
| Investment in associate | 25 | 4,742 | - |
| Property, plant and equipment | 10 | 18,987 | 14,123 |
| Intangible assets | 11 | 133,104 | 115,233 |
| Capitalised development costs | 9 | 5,683 | 9,890 |
| Deferred tax assets | 5 | 6,462 | 5,818 |
| Derivative financial instruments | 20 | 327 | - |
| Other non-current assets | | 135 | 204 |
| **Total non-current assets** | | **169,440** | **145,268** |
| **TOTAL ASSETS** | | **288,848** | **239,848** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 13 | 69,344 | 50,277 |
| Borrowings | 16 | 5,000 | - |
| Deferred revenue | 14 | 29,998 | 25,718 |
| Provisions | 15 | 10,032 | 7,722 |
| Current tax liabilities | | 1,720 | 2,796 |
| Financial liabilities at fair value through profit or loss | 20 | 870 | 12,012 |
| Derivative financial instruments | 20 | 669 | 3,070 |
| **Total current liabilities** | | **117,633** | **101,595** |
| **NON-CURRENT LIABILITIES** | | | |
| Trade and other payables | 13 | 657 | 124 |
| Borrowings | 16 | 58,928 | 39,108 |
| Derivative financial instruments | 20 | 113 | - |
| Deferred tax liabilities | 5 | 6,196 | 6,952 |
| Provisions | 15 | 4,035 | 3,266 |
| **Total non-current liabilities** | | **69,929** | **49,450** |
| **TOTAL LIABILITIES** | | **187,562** | **151,045** |
| **NET ASSETS** | | **101,286** | **88,803** |
| **EQUITY** | | | |
| Issued capital | 19 | 9,734 | 19,426 |
| Reserves | | 9,918 | 4,246 |
| Retained earnings | | 81,614 | 65,131 |
| **Equity attributable to owners of IDP Education Limited** | | **101,266** | **88,803** |
| Non-controlling interests | | 20 | - |
| **TOTAL EQUITY** | | **101,286** | **88,803** |

The above statement should be read in conjunction with the accompanying notes.

## Consolidated statement of changes in equity
## for the year ended 30 June 2018

| | Note | Issued capital $'000 | Cash flow hedge reserve $'000 | Foreign currency translation reserve $'000 | Share based payments reserve $'000 | Retained earnings $'000 | **Equity attributable to owners of IDP Education Limited $'000** | **Non-controlling interests $'000** | **Total $'000** |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 July 2016** | | **25,050** | **(2,353)** | **(1,404)** | **3,118** | **54,907** | **79,318** | **-** | **79,318** |
| Change in the fair value of cash flow hedges, net of income tax | | - | 1,652 | - | - | - | 1,652 | - | 1,652 |
| Exchange differences arising on translating the foreign operations | | - | - | 468 | - | - | 468 | - | 468 |
| Profit for the year | | - | - | - | - | 41,511 | 41,511 | - | 41,511 |
| Total comprehensive income for the year | | - | 1,652 | 468 | - | 41,511 | 43,631 | - | 43,631 |
| Buy back of treasury shares | 19.2 | (5,624) | - | - | - | - | (5,624) | - | (5,624) |
| Share-based payments | 21.4 | - | - | - | 2,765 | - | 2,765 | - | 2,765 |
| Dividends paid | 6 | - | - | - | - | (31,287) | (31,287) | - | (31,287) |
| **As at 30 June 2017** | | **19,426** | **(701)** | **(936)** | **5,883** | **65,131** | **88,803** | **-** | **88,803** |
| Change in the fair value of cash flow hedges, net of income tax | | - | 941 | - | - | - | 941 | - | 941 |
| Exchange differences arising on translating the foreign operations | | - | - | 986 | - | - | 986 | (1) | 985 |
| Profit for the year | | - | - | - | - | 51,524 | 51,524 | (43) | 51,481 |
| Total comprehensive income for the year | | - | 941 | 986 | - | 51,524 | 53,451 | (44) | 53,407 |
| Buy back of treasury shares | 19.2 | (9,692) | - | - | - | - | (9,692) | - | (9,692) |
| Share-based payments | 21.4 | - | - | - | 3,745 | - | 3,745 | - | 3,745 |
| Contribution from non-controlling interests | | - | - | - | - | - | - | 64 | 64 |
| Dividends paid | 6 | - | - | - | - | (35,041) | (35,041) | - | (35,041) |
| **As at 30 June 2018** | | **9,734** | **240** | **50** | **9,628** | **81,614** | **101,266** | **20** | **101,286** |

The above statement should be read in conjunction with the accompanying notes.

## Consolidated statement of cash flow
## for the year ended 30 June 2018

| | Notes | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 428,695 | 342,207 |
| Payments to suppliers and employees | | (327,721) | (264,793) |
| Interest received | | 370 | 339 |
| Interest paid | | (1,231) | (278) |
| Income tax paid | | (25,579) | (18,664) |
| **Net cash inflow from operating activities** | 17 | **74,534** | **58,811** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for acquisition of a subsidiary | 20.1 | (13,546) | (37,933) |
| Payments for investment in an associate | | (4,130) | - |
| Payments for plant and equipment, intangible assets and capitalised development costs | | (28,488) | (15,666) |
| **Net cash outflow from investing activities** | | **(46,164)** | **(53,599)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Contribution from non-controlling interests | | 64 | - |
| Proceeds from borrowings | 16 | 30,676 | 45,642 |
| Repayments of borrowings | 16 | (8,000) | (6,868) |
| Payments for treasury shares | | (9,692) | (5,624) |
| Dividends paid | | (35,041) | (31,287) |
| **Net cash (outflow)/inflow from financing activities** | | **(21,993)** | **1,863** |
| Net increase in cash and cash equivalents | | 6,377 | 7,075 |
| Cash and cash equivalents at the beginning of the year | | 41,958 | 35,353 |
| Effect of exchange rates on cash holdings in foreign currencies | | 474 | (470) |
| **Cash and cash equivalents at the end of the year** | 17 | **48,809** | **41,958** |

The above statement should be read in conjunction with the accompanying notes.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## Notes to the financial statements

### 1. Basis of preparation

This general purpose financial report for the year ended 30 June 2018 has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The financial statements are for the consolidated entity, consisting of IDP Education Limited (the Company) and its controlled subsidiaries (the Group). IDP Education Limited is a for profit company limited by shares whose shares are publicly traded on the Australian Securities Exchange (ASX).

The consolidated financial statements for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 22 August 2018.

#### 1.1. Compliance with IFRS

This general purpose financial report complies with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and the notes thereto, complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### 1.2. Historical cost convention

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial assets and financial liabilities (including derivative instruments) that have been recognised at fair value through profit and loss.

#### 1.3. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out in the relevant notes except for those disclosed in notes 1.8 to 1.9.

The accounting policies adopted are consistent with those of the previous financial year except as noted. When the presentation or classification of items in the financial report is amended, comparative amounts are also reclassified.

The financial report has been prepared on a going concern basis.

#### 1.4. Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the following notes:

- Note 11 - Intangible assets – Impairment test of goodwill and intangible assets with indefinite useful lives
- Note 20.3 - Fair value of financial instruments
- Note 21.3 - Fair value of share-based payments
- Note 5 – Tax matters

#### 1.5. Rounding of amounts

The Company is of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the consolidated financial statements and the Directors' report have been rounded to the nearest thousand dollars unless otherwise stated.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 1. Basis of preparation (continued)

### 1.6. Adoption of new and revised Accounting Standards

The Group applied, for the first time, certain standards and amendments which are effective for annual periods beginning on or after 1 July 2017. The nature and the impact of each new standard and/or amendment are described below:

***AASB 1048 Interpretation of Standards***

The Group has applied the new principal version of AASB 1048 providing an up-to-date listing of Australian Interpretations, including Interpretation 22 Foreign Currency Transactions and Advance Consideration and Interpretation 23 Uncertainty over Income Tax Treatments.

The application of these amendments has had no impact on the Group's consolidated financial statements as this is a service standard that ensures there is no difference between the status of Interpretations in the hierarchy between IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

***AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses***

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.
The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

***AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107***

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group’s liabilities arising from financing activities consist of borrowings (note 16) and certain other financial liabilities (note 20). A reconciliation between the opening and closing balances of these items have been provided in the annual financial report for the year ended 30 June 2018 (note 16). Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

***AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016***

The Group has applied the amendments to AASB 12 included in the *Annual Improvements to IFRS 2014-2016* for the first time in the current year. The other amendments are not yet mandatorily effective and they have not been early adopted by the Group.

AASB 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of AASB 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group’s interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 1. Basis of preparation (continued)

### 1.7. Standards and Interpretations in issue not yet effective

At the date of authorisation of the consolidated financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

| Standard and Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| *AASB 9 'Financial Instruments'* | 1 January 2018 | 30 June 2019 |
| *AASB 15 Revenue from Contracts with Customers, 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15, 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15* | 1 January 2018 | 30 June 2019 |
| *AASB 16 'Leases'* | 1 January 2019 | 30 June 2020 |

*AASB 9 Financial Instruments* - This standard includes new requirements for classification and measurement, impairment and hedge accounting of financial instruments compared with the requirements of *AASB 139 Financial Instruments: Recognition and Measurement*. Following a detailed assessment of the requirements of the standard, the Group expects that there will not be a material impact on the financial statements on application. The Group will adopt AASB 9 from 1 July 2018.

*AASB 15 Revenue from Contracts with Customers* – The Group's revenue comprises student placement revenue, IELTS examination revenue, English language teaching revenue, digital marketing and event revenue. While we are continuing to assess all potential impacts of the standard, we currently believe that, on the adoption of AASB 15, timing of recognition of student placement revenue will be impacted. Under the current revenue recognition policy, student placement revenue is recognised when student enrolments are confirmed, subject to the Group assessing that, based on the terms of the relevant contract and past experience on student withdrawal rates, it is probable that the Group will be entitled to those fees. On the adoption of AASB 15, student placement revenue will be recognised when the benefit or control of the service transfers to the customer. The recognition point will vary dependent on the customer contract and regulatory framework existing in each market. The timing of revenue recognition for IELTS examination, English language teaching, and digital marketing and event activities is expected to remain substantially unchanged. Based on the current assessment, it is expected that the adoption of AASB 15 will not have a material impact on the Group's financial performance or financial position. The Group will adopt AASB 15 from 1 July 2018. The Group intends to adopt the modified retrospective approach, the cumulative impact of the adoption will be recognised in retained earnings as of 1 July 2018 and the comparatives will not be restated.

*AASB 16 Leases* - This standard contains requirements about lease classification and recognition, measurement and presentation and disclosures of leases for lessees and lessors. On the adoption of AASB 16, IDP will recognise office leases as right-of-use assets and lease liabilities. The occupancy expenses will be replaced by depreciation charge and finance cost. The Group have yet to assess the financial impact of the adoption of this Standard in future periods on the financial statements of the Group.

| Standard and Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| *AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | 1 January 2022 | 30 June 2023 |
| *AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* | 1 January 2018 | 30 June 2019 |
| *AASB Interpretation 22 'Foreign Currency Transactions and Advance Consideration'* | 1 January 2018 | 30 June 2019 |
| *AASB Interpretation 23 Uncertainty over Income Tax Treatments* | 1 January 2019 | 30 June 2020 |

The adoption of above amendments will not have material impact in future periods on the financial statements of the Group.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 1. Basis of preparation (continued)

### 1.8. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### 1.9. Foreign currency translation

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent's functional currency. For each Group controlled entity, the Group determines the functional currency and items included in the financial statements of each Group controlled entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:

(i) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the profit or loss with exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation; and

(ii) Non-monetary items which are measured at historical cost are not retranslated.

Group consolidation

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## Financial Performance

### 2. Segment information

**Basis of segmentation**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Operating Decision Maker in assessing performance and in determining the allocation of resources. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

The Chief Operating Decision Maker determined that its operating segments comprise the geographic regions of:

- Asia – which includes Bangladesh, Cambodia, China, Hong Kong, India, Indonesia, Japan, Laos, Malaysia, Mauritius, Nepal, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, and Vietnam;
- Australasia – which includes Australia, Fiji, New Zealand and New Caledonia; and
- Rest of World – which includes Argentina, Azerbaijan, Bahrain, Brazil, Canada, Colombia, Cyprus, Egypt, Germany, Greece, Iran, Italy, Jordan, Kazakhstan, Kuwait, Lebanon, Mexico, Nigeria, Oman, Pakistan, Qatar, Russia, Saudi Arabia, Spain, Switzerland, Ukraine, Uzbekistan, the United Arab Emirates, the United Kingdom, United States of America and Turkey.

These geographic segments are based on the Group's management reporting system and the way management views the business.

The principal activities of each segment are provision of student placement services, International English Language Testing (IELTS), digital marketing and event services and English language teaching services.

**Geographic segment revenue and results**

| | Segment revenue | | Segment EBIT | |
|---|---|---|---|---|
| | **30 June 2018 $'000** | **30 June 2017 $'000** | **30 June 2018 $'000** | **30 June 2017 $'000** |
| Asia | 304,876 | 238,021 | 82,567 | 70,259 |
| Australasia | 68,523 | 68,969 | 16,292 | 18,614 |
| Rest of World | 113,756 | 87,197 | 24,885 | 16,156 |
| **Consolidated revenue** | 487,155 | 394,187 | 123,744 | 105,029 |
| Corporate cost | | | (47,820) | (43,805) |
| **EBIT** | | | **75,924** | **61,224** |
| Net finance cost | | | (2,054) | (717) |
| **Profit before tax** | | | **73,870** | **60,507** |

**Service segment**

The Group also uses a secondary segment which shows revenue and gross profit by service. Revenue by service segment is disclosed in Note 3. Gross profit (i.e. revenue less direct costs) by service segment is shown below:

| | **30 June 2018 $'000** | **30 June 2017 $'000** |
|---|---|---|
| Student placement | 104,112 | 87,249 |
| IELTS examination | 129,111 | 103,604 |
| English language teaching | 14,749 | 13,950 |
| Digital marketing and events | 19,778 | 6,003 |
| Other | 1,730 | 1,937 |
| | **269,480** | **212,743** |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 3. Revenue

**Accounting policy**

Revenue is measured at the fair value of the consideration received or receivable.

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

(i) Student placement revenue

Student placement revenue is recognised when student enrolments are confirmed, subject to the Group assessing that, based on the terms of the relevant contract and past experience on student withdrawal rates, it is probable that the Group will be entitled to those fees.

As a result, the recognition date can and does vary between markets depending on the maturity of the market and relevant factors such as availability of supporting data and other evidence used to assess probability of entitlement in the context of the customer contract. These factors are reviewed regularly and where appropriate the recognition date is updated.

The Company is not entitled to fees for confirmed student enrolments that are subsequently withdrawn prior to a date specified in the contract, typically the student census date. Accordingly, allowance provisions, where applicable, are established based on historical information for student withdrawals.

(ii) IELTS revenue

Revenue for English language testing is generally recognised when testing has been completed.

(iii) English language teaching revenue

Revenue for English language teaching is generally recognised on a percentage of course completion basis.

(iv) Digital marketing and event revenue

Digital marketing and event revenue is recognised when the digital marketing service has been delivered or an exhibition has been held.

(v) Other revenue

Other revenue is the recognised when the service is provided and the fee is received.

| | **30 June 2018** | **30 June 2017** |
|---|---|---|
| | **$'000** | **$'000** |
| Student placement revenue | 122,662 | 103,414 |
| IELTS examination revenue | 306,788 | 250,703 |
| English language teaching revenue | 22,216 | 21,158 |
| Digital marketing and event revenue | 31,909 | 15,311 |
| Other revenue | 3,580 | 3,601 |
| | **487,155** | **394,187** |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 4. Expenses and finance costs

### 4.1 Expenses

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| | $'000 | $'000 |
| Student placement direct costs | 18,550 | 16,165 |
| IELTS examination direct costs | 177,677 | 147,099 |
| English language teaching direct costs | 7,467 | 7,208 |
| Digital marketing and event direct costs | 12,131 | 9,308 |
| Other direct costs | 1,850 | 1,664 |
| Employee benefits expense | 117,683 | 90,368 |
| Occupancy expenses | 19,378 | 16,379 |
| Marketing expenses | 13,949 | 11,224 |
| Administrative expenses | 7,275 | 6,347 |
| IT and communication expenses | 7,253 | 5,505 |
| Consultancy and professional expenses | 8,986 | 6,936 |
| Foreign exchange (gain)/loss | (830) | 1,928 |
| Other expenses | 6,490 | 5,691 |
| | **397,859** | **325,822** |

### 4.2 Finance costs

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| | $'000 | $'000 |
| Interest on borrowings | 1,359 | 412 |
| Unwind of discount on financial liabilities | 719 | 496 |
| Other finance costs | 346 | 135 |
| | **2,424** | **1,043** |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 5. Income taxes

### Critical accounting estimates and assumptions

The Group is subject to income taxes in Australia and foreign jurisdictions and as a result the calculation of the Group's tax charge involves a degree of estimation and judgment in respect of certain items. The Group recognises liabilities for potential tax audit issues based on management's assessment of whether additional taxes may be payable. Where the final tax outcome of these matters is different from the amounts that were initially recorded, these differences impact the current and deferred tax provisions in the period in which such determination is made.

### Accounting policy

IDP Education Limited is the head entity in a tax-consolidated group under Australian taxation law. As a result the Company and Australian entities controlled by the Company are all subject to income tax through membership of the tax-consolidated group. The consolidated current and deferred tax amounts for the tax-consolidated group are allocated to the members of the tax-consolidated group using the 'separate taxpayer within group' approach, with deferred taxes being allocated by reference to the carrying amounts in the financial statements of each member entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits arising from this allocation process are then accounted for as immediately assumed by the head entity, as under Australian taxation law the head entity has the legal obligation (or right) to these amounts.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, the entities controlled by the Group have agreed to pay an amount to or from the head entity equal to the tax liability or asset assumed by the head entity for that period as noted above. Such amounts are reflected in amounts receivable from or payable to the head entity. Accordingly, the amount arising under the tax funding arrangement for each period is equal to the tax liability or asset assumed by the head entity for that period and no contribution from (or distribution to) equity participants arises in relation to income taxes.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent it relates to items recognised directly in equity in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income 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 is recognised using the balance sheet method providing for 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 the following temporary differences:

(i) The initial recognition of assets or liabilities in a transaction that is not a business combination;

(ii) The initial recognition of goodwill; and

(iii) The initial recognition of assets and liabilities in a transaction which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

A deferred tax asset is recognised to the extent that it is probable that future tax profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Research and development incentive

Research and development (R&D) incentives are accounted for in accordance with AASB 120 'Accounting for Government Grants and Disclosure of Government Assistance'. R&D incentives are assistance to the Group by the Australian Government in the form of a reduction in income tax liability in return for expenditure on eligible R&D as registered with AusIndustry. R&D incentives receivable as compensation for expenses or losses already incurred by the Group with no future related costs are recognised in profit or loss in the period in which they are quantified and become receivable. The amount of R&D incentives received or receivable in respect of eligible R&D as registered with AusIndustry that is in excess of the amount that would have otherwise been deductible in calculating income tax expense are included in other revenue.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 5. Income taxes (continued)

### 5.1 Income tax recognised in profit or loss

| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
|---|---|---|
| **Current tax** | | |
| Current tax expense in respect of the current year | 23,574 | 18,025 |
| Withholding taxes | 551 | 508 |
| Adjustments recognised in the current year in relation to the current tax of prior years | (157) | 467 |
| | 23,968 | 19,000 |
| **Deferred tax** | | |
| In respect of the current year | (1,579) | (4) |
| Total income tax expense recognised in the current year relating to continuing operations | **22,389** | **18,996** |

The income tax expense for the year can be reconciled to the accounting profit as follows

| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
|---|---|---|
| Profit before tax | 73,870 | 60,507 |
| Income tax expense calculated at 30% (2017: 30%) | 22,161 | 18,152 |
| Add tax effect of: | | |
| Non-deductible expenses | 739 | 438 |
| Attributed income | 752 | 58 |
| Unused tax losses, tax offsets and timing differences not recognised as deferred tax assets | 559 | 685 |
| Withholding taxes | 551 | 508 |
| Effect on deferred tax balances due to the change in income tax rate | 21 | - |
| | 24,783 | 19,841 |
| Less tax effect of: | | |
| Non-assessable income | (328) | (263) |
| Other deductible items | (551) | (71) |
| Prior year deferred tax balances recognised | (384) | 475 |
| Effect of tax rate in foreign jurisdictions | 191 | (1,453) |
| Tax losses | (1,165) | - |
| Adjustments recognised in the current year in relation to the current tax of prior years | (157) | 467 |
| **Income tax recognised in profit or loss** | **22,389** | **18,996** |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 5. Income taxes (continued)

### 5.2 Deferred tax balances

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Deferred tax assets | 6,462 | 5,818 |
| Deferred tax liabilities | (6,196) | (6,952) |
| | **266** | **(1,134)** |

**2018**

Temporary differences and tax losses

| $'000 | Opening balance | Recognised in profit or loss | Recognised in other comprehensive income | Acquisitions | Closing balance |
|---|---|---|---|---|---|
| Accrued expenses | 1,319 | 638 | - | - | 1,957 |
| Deferred capital expenditure | 151 | (46) | - | - | 105 |
| Employee benefits | 1,660 | (1,129) | - | - | 531 |
| Trade receivable | 333 | (326) | - | - | 7 |
| Derivative financial instruments | 1,068 | (559) | (404) | - | 105 |
| Hedge of net investments | 295 | - | 542 | - | 837 |
| Unrealised foreign exchange losses | 234 | (55) | - | - | 179 |
| Plant, property and equipment | (723) | (7) | - | - | (730) |
| Deferred revenue | (215) | 196 | - | - | (19) |
| Intangible assets | (6,952) | 1,073 | (317) | - | (6,196) |
| Prepayments | - | (39) | - | - | (39) |
| Tax losses | 86 | 1,495 | - | - | 1,581 |
| Others | 1,610 | 338 | - | - | 1,948 |
| **Net deferred tax** | **(1,134)** | **1,579** | **(179)** | **-** | **266** |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 5 Income taxes (continued)

### 5.2 Deferred tax balances (continued)

**2017**

Temporary differences and tax losses

| $'000 | Opening balance | Recognised in profit or loss | Recognised in other comprehensive income | Acquisitions | Closing balance |
|---|---|---|---|---|---|
| Accrued expenses | 1,025 | 294 | - | - | 1,319 |
| Deferred capital expenditure | 96 | 55 | - | - | 151 |
| Employee benefits | 2,289 | (629) | - | - | 1,660 |
| Trade receivable | 13 | 320 | - | - | 333 |
| Derivative financial instruments | 1,458 | 318 | (708) | - | 1,068 |
| Hedge of net investments | - | - | 295 | - | 295 |
| Unrealised foreign exchange losses | 191 | 43 | - | - | 234 |
| Plant, property and equipment | 312 | (1,035) | - | - | (723) |
| Deferred revenue | (278) | 63 | - | - | (215) |
| Intangible assets | (882) | 274 | (115) | (6,229) | (6,952) |
| Tax losses | - | 86 | - | - | 86 |
| Others | 1,395 | 215 | - | - | 1,610 |
| **Net deferred tax** | **5,619** | **4** | **(528)** | **(6,229)** | **(1,134)** |

### 5.3 Unrecognised deferred tax assets

| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
|---|---|---|
| Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognised are attributable to the following: | | |
| - temporary differences | 592 | 452 |
| - tax losses | 3,783 | 2,336 |
| | 4,375 | 2,788 |

The unrecognised tax losses will expire between 5 years and indefinite.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 6. Dividends

### Accounting policy

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### 6.1 Dividends paid

| | 30 June 2018 | | 30 June 2017 | |
|---|---|---|---|---|
| | **cents per share** | **Total $'000** | **cents per share** | **Total $'000** |
| Final dividend paid in respect of prior financial year – 55% franked (2017: 35%) at the Australia corporate tax rate of 30% | 5.5 | 13,766 | 5.5 | 13,766 |
| Interim dividend paid in respect of current financial year - 70% franked (2017: 50%) at the Australia corporate tax rate of 30% | 8.5 | 21,275 | 7.0 | 17,521 |
| **Total** | | **35,041** | | **31,287** |

The final dividend of 5.5c per share for the financial year ended 30 June 2017 was paid on 28 September 2017.

The interim dividend of 8.5c per share for the financial year ended 30 June 2018 was paid on 29 March 2018.

### 6.2 Dividends proposed and not recognised at the end of the reporting period

A dividend of 6.5 cents per share franked at 60% was declared on 22 August 2018, payable on 27 September 2018 to shareholders registered on 7 September 2018.

### 6.3 Franking credits

The balance of the franking account at 30 June 2018 is $8.111m (2017: $6.831m) based on the Australian corporate tax rate of 30% (2017: 30%). The dividend payment on 27 September 2018 will reduce the franking credits available by $4.253m.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 7. Earnings per share

### Accounting policy

Basic earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for bonus elements in ordinary shares issued during the reporting period.

Diluted earnings per share

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account:

• the after income tax effect of any interest and other financing costs associated with dilutive potential ordinary shares; and

• the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

| | 30 June 2018 | | 30 June 2017 | |
|---|---|---|---|---|
| | Cents | | Cents | |
| | **Basic** | **Diluted** | **Basic** | **Diluted** |
| Earnings per share | **20.59** | **20.14** | **16.58** | **16.20** |

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| **Earnings used in calculating earnings per share** | **$000** | **$000** |
| Earnings used in the calculation of basic and diluted earnings per share | 51,524 | 41,511 |

| **Weighted average number of shares used as the denominator** | **30 June 2018** | **30 June 2017** |
|---|---|---|
| Weighted average number of shares used as denominator in calculating basic EPS | 250,294,968 | 250,294,968 |
| Weighted average of potential dilutive ordinary shares: | | |
| - options | 4,150,000 | 4,150,000 |
| - performance rights | 1,338,780 | 1,775,290 |
| **Weighted average number of shares used as denominator in calculating diluted EPS** | **255,783,748** | **256,220,258** |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## Assets and liabilities

### 8. Trade and other receivables

**Accounting policy**

Trade receivables, which generally have 30 to 60 day terms, are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified.

An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the allowance is measured as the difference between the carrying amount of the trade receivables and the present value of the estimated future cash flows expected to be recovered from the relevant debtors.

| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
|---|---|---|
| Trade receivables | 43,442 | 34,879 |
| Allowance for doubtful debts | (599) | (1,335) |
| | **42,843** | **33,544** |
| Other receivables | 10,595 | 7,975 |
| | **53,438** | **41,519** |

Included in the Group's trade receivable balance are debtors with a carrying amount of $13.776m (2017: $10.469m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

**Age of receivables that are past due but not impaired**

| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
|---|---|---|
| 1 - 30 days | 1,092 | 4,683 |
| 30 - 60 days | 215 | 199 |
| 60 - 90 days | 2,297 | 1,236 |
| 90 - 120 days | 4,438 | 3,227 |
| 120+ days | 5,734 | 1,124 |
| **Total** | **13,776** | **10,469** |

**Movement in the allowance for doubtful debts**

| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
|---|---|---|
| Balance at beginning of the year | (1,335) | (78) |
| Impairment losses recognised on receivables | (333) | (1,324) |
| Amounts written off during the year | 1,069 | 67 |
| Impairment losses reversed | - | - |
| **Balance at end of the year** | **(599)** | **(1,335)** |

See Note 20.2 on credit risk of trade receivables, which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 9. Capitalised development costs

### Accounting policy

Capitalised development costs represent internally developed systems not yet put into use. These assets will be transferred to intangible assets or plant, property and equipment as appropriate on the date of completion.

Capitalised development costs arising from the development phase of an internal project are recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use;
- the intention to complete the intangible asset and use it;
- the ability to use the intangible asset;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount recognised is the sum of the expenditure incurred from the date when the project development first meets the recognition criteria listed above. Where above criteria is not met, development expenditure is recognised in profit or loss in the period in which it is incurred.

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Balance at beginning of the year | 9,890 | 6,096 |
| Additions | 18,130 | 10,455 |
| Transfers to intangible assets | (22,337) | (6,661) |
| Balance at end of the year | **5,683** | **9,890** |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 10. Property, plant and equipment

### Accounting policy

Property, plant and equipment is carried at cost, net of accumulated depreciation and impairment losses, if any. Property, plant and equipment are depreciated using the straight line basis over their estimated useful economic lives. The expected depreciation rate for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation rate |
|---|---|
| Leasehold Improvements | Lease term |
| Plant and equipment | 20-33% |

Impairment

The carrying values of property, plant and equipment are reviewed annually for indications of impairment to ensure they are not in excess of the recoverable amount for these assets. An impairment loss is recognised to the extent that the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

| **Cost** | **Leasehold improvements $'000** | **Plant and equipment $'000** | **Total $'000** |
|---|---|---|---|
| Balance at 1 July 2016 | 12,527 | 13,262 | 25,789 |
| Additions | 3,966 | 2,729 | 6,695 |
| Acquisitions through business combinations | 18 | 1,544 | 1,562 |
| Disposals | (102) | (423) | (525) |
| Balance at 30 June 2017 | 16,409 | 17,112 | 33,521 |
| Additions | 6,740 | 3,849 | 10,589 |
| Disposals | (686) | (1,133) | (1,819) |
| Balance at 30 June 2018 | 22,463 | 19,828 | 42,291 |
| **Accumulated depreciation** | | | |
| Balance at 1 July 2016 | (6,272) | (8,218) | (14,490) |
| Depreciation for the year | (1,966) | (2,310) | (4,276) |
| Acquisitions through business combinations | (4) | (1,124) | (1,128) |
| Disposals | 73 | 423 | 496 |
| Balance at 30 June 2017 | (8,169) | (11,229) | (19,398) |
| Depreciation for the year | (2,798) | (2,849) | (5,647) |
| Disposals | 608 | 1,133 | 1,741 |
| Balance at 30 June 2018 | (10,359) | (12,945) | (23,304) |
| **Net Book Value** | | | |
| At 30 June 2017 | 8,240 | 5,883 | 14,123 |
| At 30 June 2018 | 12,104 | 6,883 | 18,987 |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 11. Intangible assets

### Critical accounting estimates and assumptions

*Impairment of goodwill and other intangible assets with indefinite useful lives*

Goodwill and intangible assets with indefinite useful lives are allocated to a cash-generating unit (CGU) or group of CGUs and tested for impairment annually to determine whether they have suffered any impairment in accordance with the accounting policy stated below.

A CGU is the smallest identifiable group of assets that generate cash flows largely independent of cash flows of other groups of assets. Goodwill and other indefinite life intangible assets are allocated to CGU or group of CGUs which are no larger than one of the Group's reportable segments.

The recoverable amounts of the CGU or group of CGUs to which the assets have been allocated have been determined based on the value in use calculations. These calculations are performed based on cash flow projections and other supplementary information which, given their forward looking nature, require the adoption of assumptions and estimates.

The key assumptions and estimates utilised in management's assessments relate primarily to:

- Three years cash flow forecasts sourced from internal budgets and management forecasts;
- Terminal value growth rates applied to the period beyond the three year cash flow forecasts; and
- Post-tax discount rates, used to discount the cash flows to present value.

Each of these assumptions and estimates is based on a "best estimate" at the time of performing the valuation. However, increase in discount rates or changes in other key assumptions, such as operating conditions or financial performance, may cause the carrying value of CGU or group of CGUs to exceed their recoverable amount.

### Accounting policy

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as expenses. Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 11. Intangible assets (continued)

| Cost | Software $'000 | Student placement licence $'000 | Brand and trade names $'000 | Customer relationships $'000 | Website technology and database $'000 | Goodwill $'000 | Contracts for English language testing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 July 2016 | 22,785 | 2,493 | 1,059 | 249 | - | 13,225 | 35,200 | 75,011 |
| Additions | 394 | - | - | - | - | - | - | 394 |
| Transfer from capitalised development costs | 6,661 | - | - | - | - | - | - | 6,661 |
| Acquisitions through business combinations | - | - | 13,062 | 12,975 | 6,715 | 23,848 | - | 56,600 |
| Disposals | (4) | - | - | - | - | - | - | (4) |
| Effect of foreign currency exchange differences | - | - | 243 | 241 | 125 | 444 | - | 1,053 |
| Balance at 30 June 2017 | 29,836 | 2,493 | 14,364 | 13,465 | 6,840 | 37,517 | 35,200 | 139,715 |
| Additions | 24 | - | - | - | - | - | - | 24 |
| Transfer from capitalised development costs | 22,337 | - | - | - | - | - | - | 22,337 |
| Disposals | (1) | - | - | - | - | - | - | (1) |
| Effect of foreign currency exchange differences | - | - | 719 | 715 | 370 | 1,313 | - | 3,117 |
| Balance at 30 June 2018 | 52,196 | 2,493 | 15,083 | 14,180 | 7,210 | 38,830 | 35,200 | 165,192 |
| **Accumulated amortisation** | | | | | | | | |
| Balance at 1 July 2016 | (21,376) | (180) | (77) | (18) | - | - | - | (21,651) |
| Amortisation for the year | (1,504) | - | - | - | - | - | - | (1,504) |
| Amortisation of intangible assets generated from business combinations | - | (166) | (71) | (362) | (762) | - | - | (1,361) |
| Disposals | 4 | - | - | - | - | - | - | 4 |
| Effect of foreign currency exchange differences | - | - | - | 9 | 21 | - | - | 30 |
| Balance at 30 June 2017 | (22,876) | (346) | (148) | (371) | (741) | - | - | (24,482) |
| Amortisation for the year | (2,530) | - | - | - | - | - | - | (2,530) |
| Amortisation of intangible assets generated from business combinations | - | (2,147) | (70) | (966) | (1,754) | - | - | (4,937) |
| Disposals | 1 | - | - | - | - | - | - | 1 |
| Effect of foreign currency exchange differences | - | - | - | (48) | (92) | - | - | (140) |
| Balance at 30 June 2018 | (25,405) | (2,493) | (218) | (1,385) | (2,587) | - | - | (32,088) |
| **Net Book Value** | | | | | | | | |
| At 30 June 2017 | 6,960 | 2,147 | 14,216 | 13,094 | 6,099 | 37,517 | 35,200 | 115,233 |
| At 30 June 2018 | 26,791 | - | 14,865 | 12,795 | 4,623 | 38,830 | 35,200 | 133,104 |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 11. Intangible assets (continued)

Software

Software is amortised over the useful life of 3 to 5 years.

Student placement licence

Student placement licence is a separately identifiable intangible asset arising from a business combination and is recognised at fair value at the acquisition date. Student placement licence was amortised over 15 years. As at 30 June 2018, the Group reassessed the useful life of student placement licence due to the regulation change in China and it was determined to fully amortise the remaining balance based on the reassessment.

Brand and trade names

Brand and trade names are separately identifiable intangible assets arising from business combinations and are recognised at fair value at the acquisition date. The useful life of brand and trade names are assessed based on nature of the specific market and assets. Brand and trade names from the Hotcourses acquisition are considered to have an indefinite useful life and as such are not amortised but are tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Brand and trade name from the Promising Education acquisition is amortised over 15 years.

Customer relationships

Customer relationships are separately identifiable intangible assets arising from business combinations and are recognised at fair value at the acquisition date. Customer relationships are amortised between 8 and 19 years.

Website technology and database

Website technology and database is a separately identifiable intangible asset arising from a business combination and is recognised at fair value at the acquisition date. Website technology and database are amortised between 3 and 5 years.

Contracts for English language testing and Goodwill

Contracts for English language testing acquired on 1 September 2006 are recognised at their fair value at date of acquisition. There is no termination date in accordance with its term and management has re-assessed the events and circumstances, which supports an indefinite useful life assessment for Contracts for English language testing. These contracts are considered to have an indefinite useful life and as such are not amortised.

Contracts of English language testing and Goodwill are not amortised but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Contracts of English language testing and Goodwill are allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or group of CGUs that are expected to benefit from the Contracts for English language testing and business combination in which the Goodwill arose.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 11. Intangible assets (continued)

*Impairment testing and key assumptions*

A summary by CGU of the carrying amount of goodwill and intangible assets with indefinite useful lives is detailed below:

| CGU/Group of CGUs | 30 June 2018 Goodwill $'000 | 30 June 2018 Intangible assets with indefinite useful lives $'000 | 30 June 2017 Goodwill $'000 | 30 June 2017 Intangible assets with indefinite useful lives $'000 |
|---|---|---|---|---|
| Asia - IELTS testing | 4,476 | 14,625 | 4,476 | 14,625 |
| Australasia - IELTS testing | 3,451 | 11,275 | 3,451 | 11,275 |
| Rest of World - IELTS testing | 2,847 | 9,300 | 2,847 | 9,300 |
| China - Student placement | 2,451 | - | 2,451 | - |
| UK – Digital marketing | 25,605 | 14,024 | 24,292 | 13,305 |
| | 38,830 | 49,224 | 37,517 | 48,505 |

The Group tests whether Goodwill and intangible assets with indefinite useful lives are subject to any impairment annually. The recoverable amount is based on a value in use calculation which uses discounted cash flow projections based on three years internal budgets and management forecasts. Cash flow projections during the budget/forecasts period are based on management's best estimate of volume growth, expenses, inflation and foreign exchange rate throughout the period.

*Key assumptions*

| CGU/Group of CGUs | Valuation method | Years of cash flow projection | Terminal growth rate | Post-tax discount rate % 2018 | Post-tax discount rate % 2017 |
|---|---|---|---|---|---|
| Asia - IELTS testing | Value in use | 3 | 3% | 9.5% | 10.0% |
| Australasia - IELTS testing | Value in use | 3 | 0% | 9.5% | 10.0% |
| Rest of World - IELTS testing | Value in use | 3 | 3% | 9.5% | 10.0% |
| China - Student placement | Value in use | 3 | 1.8% | 18% | 18% |
| UK – Digital marketing | Value in use | 3 | 2.5% | 11.5% | 11.5% |

As at 30 June 2018 and 2017, the fair value supports the carrying amount and no impairment has been recognised. No reasonably possible changes in significant assumptions would give rise to an impairment of Intangible assets with indefinite useful lives and Goodwill.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 12. Other current assets

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Prepayments | 7,258 | 5,376 |
| Refundable deposits | 5,464 | 4,101 |
| Other assets | 350 | 338 |
| | **13,072** | **9,815** |

## 13. Trade and other payables

| **Current** | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Trade payables | 52,993 | 37,261 |
| Other payables | 264 | 134 |
| Employee benefits payable | 16,087 | 12,882 |
| | **69,344** | **50,277** |
| **Non-current** | | |
| Lease incentive liabilities | 657 | 124 |
| | **70,001** | **50,401** |

As at 30 June 2018 and 2017, the carrying value of trade and other payables approximated their fair value.

## 14. Deferred revenue

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Unearned income – Examination fees (1) | 13,737 | 12,681 |
| Unearned income – Exhibition fees (2) | 2,267 | 1,977 |
| Unearned income – School fees (3) | 4,683 | 3,585 |
| Unearned income – Digital marketing contracts (4) | 8,862 | 7,017 |
| Unearned income – Others | 449 | 458 |
| | **29,998** | **25,718** |

(1) The deferred revenue arises in respect to IELTS fees paid by candidates in advance of the IELTS testing month

(2) The deferred revenue arises as a result of exhibition fees paid by participants in advance of the event date

(3) The deferred revenue arises as a result of tuition fees paid by participants in advance of the tuition date

(4) The deferred revenue arises as a result of digital marketing contracts fees paid by customers in advance of service delivery

Refer to note 3 for the revenue recognition accounting policy for each of the revenue stream above.

## 15. Provisions

**Accounting policy**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision for make good

A make good liability or obligation is provided for to dismantle, remove and restore items of property, plant and equipment in properties leased by the Group. The provision calculation is based on the terms of the lease agreements.

Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
|---|---|---|
| Employee benefits | 10,317 | 7,802 |
| Make good provision | 3,750 | 3,186 |
| | **14,067** | **10,988** |
| | | |
| Current | 10,032 | 7,722 |
| Non-current | 4,035 | 3,266 |
| | **14,067** | **10,988** |

**Movement in make good provisions are set out below**

| | | |
|---|---|---|
| Balance at beginning of the year | 3,186 | 2,660 |
| Additional provisions required | 478 | 434 |
| Unwinding of discount and effect of changes in the discount rate | 86 | 92 |
| Balance at end of the year | **3,750** | **3,186** |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## Capital structure and financing

### 16. Borrowings

| Current | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Bank loans | 5,000 | - |
| **Non-current** | | |
| Bank loans | 58,928 | 39,108 |
| **Total** | **63,928** | **39,108** |

#### 16.1 Reconciliation of liabilities arising from financing activities

| | Opening balance $'000 | Financing cash flows (i) $'000 | Impact of foreign currency translation $'000 | Other changes $'000 | Closing balance $'000 |
|---|---|---|---|---|---|
| Bank loans | 39,108 | 22,676 | 2,010 | 134 | **63,928** |

(i) The cash flows from bank loans make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows.

#### 16.2 Financing arrangement

The Group has access to the following borrowing facilities at the end of the year:

| | Currency | 30 June 2018 '000 | 30 June 2017 '000 |
|---|---|---|---|
| Cash advance term facility A (1) | GBP | 36,000 | 36,000 |
| Facility utilised at end of the year | GBP | (30,906) | (23,381) |
| Facility not utilised at end of the year | GBP | 5,094 | 12,619 |
| Cash advance term facility C (1) | AUD | 7,000 | - |
| Facility utilised at end of the year | AUD | (4,130) | - |
| Facility not utilised at end of the year | AUD | 2,870 | - |
| Multi-option facility (2) | AUD | 20,000 | 10,000 |
| Facility utilised at end of the year | AUD | (5,000) | - |
| Facility not utilised at end of the year | AUD | 15,000 | 10,000 |

(1) Cash advance term facility will expire on 18 January 2020

(2) Multi-option facility will expire on 17 January 2019

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 17. Cash flow information

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with maturities of three months or less, net of bank overdrafts.

The reconciliation of profit for the year after tax to net cash flows from operating activities is as follows:

| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
|---|---|---|
| Net profit after tax | **51,481** | **41,511** |
| Adjustment for: | | |
| Depreciation and amortisation | 13,114 | 7,141 |
| Doubtful debt provision | 482 | 1,192 |
| Share of loss of an associate | 258 | - |
| Net foreign exchange (gain)/loss | (830) | 1,928 |
| Interest expenses | 2,424 | 1,043 |
| Share-based payments | 3,745 | 2,765 |
| Unwinding discount of provisions | 86 | 92 |
| Loss on disposal of plant and equipment | 77 | 45 |
| Movement in working capital: | | |
| Trade and other receivables | (12,990) | (5,728) |
| Derivative financial instruments | (3,376) | (663) |
| Other assets | (3,168) | 263 |
| Trade and other payables | 25,899 | 8,013 |
| Current and deferred tax assets | (4,516) | 287 |
| Provisions | 3,079 | 1,200 |
| **Cash generated from operations** | **75,765** | **59,089** |
| Interest paid | (1,231) | (278) |
| **Net cash inflow from operating activities** | **74,534** | **58,811** |

Reconciliation of cash and cash equivalents

| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
|---|---|---|
| Cash at bank and on hand | 48,809 | 41,958 |
| | **48,809** | **41,958** |

## 18. Lease commitments

| Operating lease commitments | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
|---|---|---|
| Non-cancellable operating leases contracted for but not capitalised in the financial statements | | |
| Not later than one year | 10,571 | 9,794 |
| Later than one year and not later than five years | 21,946 | 20,669 |
| Later than five years | 4,379 | 3,808 |
| Minimum lease payments | **36,896** | **34,271** |

The Group leases various offices under non-cancellable operating leases expiring within one to ten years. The leases have varying terms, escalation clauses and renewal rights.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 19. Issued capital

### 19.1 Share capital

| | Note | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|---|
| Ordinary shares fully paid | | 19,426 | 23,483 |
| Treasury shares | 19.2 | (9,692) | (4,057) |
| | | **9,734** | **19,426** |

| Movement in ordinary shares (fully paid) | Number of shares | $ per share | $'000 |
|---|---|---|---|
| Balance at 1 July 2016 (including treasury shares) | 250,294,968 | | 27,450 |
| Issue of new shares | - | - | - |
| Transfer of treasury shares to employees | - | - | (3,967) |
| Balance at 30 June 2017 (including treasury shares) | **250,294,968** | | **23,483** |
| Issue of new shares | - | - | - |
| Transfer of treasury shares to employees | - | - | (4,057) |
| Balance at 30 June 2018 (including treasury shares) | **250,294,968** | **-** | **19,426** |

### 19.2 Treasury shares

| Movement in treasury shares | Number of shares | $ per share | $'000 |
|---|---|---|---|
| Balance at 1 July 2016 | 905,660 | - | 2,400 |
| Buy back of treasury shares – FY17 1st HY | 136,571 | 4.60 | 628 |
| Buy back of treasury shares – FY17 2nd HY | 1,047,632 | 4.77 | 4,996 |
| Transfer to employees | (1,248,447) | 3.17 | (3,967) |
| Balance at 30 June 2017 | 841,416 | | 4,057 |
| Buy back of treasury shares – FY18 1st HY | - | - | - |
| Buy back of treasury shares – FY18 2nd HY | 1,201,164 | 8.07 | 9,692 |
| Transfer to employees | (841,420) | 4.82 | (4,057) |
| Balance at 30 June 2018 | 1,201,160 | | 9,692 |

During FY18, 841,420 treasury shares were transferred to employees under the performance rights plans (Note 21.2). These shares therefore ceased to be held as treasury shares after these dates.

During the 2nd half of FY18, IDP Education Employee Share Scheme Trust acquired 1,201,164 shares (at an average price of $8.07 per share) to be held in the Trust for the benefit of IDP Education group employees who are participants in the IDP Education Employee Incentive Plan.

As at 30 June 2018, there are 1,201,160 treasury shares ($9.692m) held in the Trust. These shares will be transferred to eligible employees under the Performance Rights plan once the vesting conditions are met.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 20. Financial instruments

### 20.1 Financial assets and liabilities

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| | $'000 | $'000 |
| **Financial assets** | | |
| Cash and cash equivalents | 48,809 | 41,958 |
| Derivative financial instruments | | |
| Foreign exchange forward/option contracts | 1,572 | 484 |
| Trade and other receivables | 53,438 | 41,519 |
| | | |
| **Financial liabilities** | | |
| Borrowings | 63,928 | 39,108 |
| Fair value through profit or loss | | |
| Contingent consideration* | 870 | 12,012 |
| Derivative financial instruments | | |
| Foreign exchange forward/option contracts | 782 | 3,070 |
| Trade and other payables | 70,001 | 50,401 |

** Contingent consideration*

As part of the acquisition of Hotcourses Limited, contingent consideration with an estimated fair value of $12.012m was recognised at 30 June 2017. The final payment amount was $13.546m as a result of successful achievement of the KPIs in the measurement period. The payment was made in April 2018.

As part of the 20% investment of HCP Limited, contingent consideration with an estimated fair value of $0.87m was recognised as at 30 June 2018. The contingent consideration is classified as a financial liability at fair value through profit and loss. The final payment amount of the contingent consideration is dependent on the KPI measurement of HCP Limited for the 12 month period after the initial investment date. The payment is due in August 2018.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 20. Financial Instruments (continued)

**Accounting policy**

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and options to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income (OCI) and later reclassified to profit or loss when the hedged item affects profit or loss.

Cash flow hedges

Hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses.

The Group uses forward currency contracts and options as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised in profit or loss.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Hedge of net investments in foreign operations

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as OCI while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

The Group uses a foreign currency loan as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries. The loan at 30 June 2018 was a borrowing of GBP 30.906m which has been designated as a hedge of the net investment in the subsidiary in UK, Hotcourses Limited. This borrowing is being used to hedge the Group’s exposure to the GBP foreign exchange risk on this investment. Gains or losses on the retranslation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investment in the subsidiary. There is no ineffectiveness in the year ended 30 June 2018.

### 20.2 Financial risk management objectives and policies

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk) and liquidity risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, the use of financial derivatives and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's Corporate Treasury function reports at least quarterly to the Group's Audit and Risk Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 20. Financial Instruments (continued)

### 20.2 Financial risk management objectives and policies (continued)

**Market risk**

**Foreign currency risk management**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. Predominantly these foreign currencies include British Pounds (GBP), Indian Rupee (INR) and Chinese Yuan (CNY).

Foreign currency exchange rate risk arises from:

- GBP payments to the University of Cambridge Local Examinations Syndicate test materials commitment;
- Borrowings denominated in GBP;
- Other foreign currencies income or operational expenses (mainly CNY and INR); and
- GBP, USD, CAD and NZD receivable from student placement revenue and IELTS examination fees.

**Cash flow hedge**

The Company utilises a variety of methods to manage its foreign currency exchange rate risk. The key method is the use of forward exchange contracts and currency option contracts. The Company's hedging policy permits the purchase of forward exchange contracts up to 100% and currency option contracts up to 50% of the currency exposure on the current and following year's forecast cash operating expenses and revenues (net of any forecast cash receipts and payments in the same currency). The main currencies currently covered by the hedging strategy are GBP, CNY and INR.

The Company's current policy is to enter into hedges during the current year covering up to 25% each quarter of the foreign currency exchange rate exposure of the following financial year's forecast cash operating expenses (net of any forecast cash receipts). The balance of the hedge program is completed when the Board approves the Company's budget and cash flow forecasts for the following financial year (which is prior to the commencement of that financial year).

The following table details the significant forward currency contracts and options outstanding at the end of the reporting period.

| | Foreign currency | | Fair value (AUD) | |
|---|---|---|---|---|
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| **Buy GBP** | $'000 | $'000 | $'000 | $'000 |
| 0 to 3 months | 8,711 | 8,008 | (22) | (2,021) |
| 3 to 6 months | 4,900 | 4,678 | 115 | (257) |
| 6 months to 1 year | 10,500 | 7,720 | 368 | (339) |
| Over 1 year | 5,000 | - | 119 | - |
| | **30 June 2018** | **30 June 2017** | **30 June 2018** | **30 June 2017** |
| **Sell INR** | **$'000** | **$'000** | **$'000** | **$'000** |
| 0 to 3 months | 207,029 | 300,733 | (73) | 3 |
| 3 to 6 months | 268,328 | 144,823 | (39) | 67 |
| 6 months to 1 year | 539,457 | 268,400 | 94 | 200 |
| | **30 June 2018** | **30 June 2017** | **30 June 2018** | **30 June 2017** |
| **Buy CNY** | **$'000** | **$'000** | **$'000** | **$'000** |
| 0 to 3 months | 16,949 | 10,194 | 47 | (29) |
| 3 to 6 months | 21,146 | 15,676 | 17 | (61) |
| 6 months to 1 year | 24,926 | 21,077 | 88 | (116) |
| Over 1 year | 15,700 | - | 7 | - |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 20. Financial Instruments (continued)

### 20.2 Financial risk management objectives and policies (continued)

**Market risk (continued)**

**Foreign currency risk management (continued)**

**Foreign currency denominated monetary assets and monetary liabilities**

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | 30 June 2018 | | 30 June 2017 | |
|---|---|---|---|---|
| **AUD equivalent** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| USD | 12,867 | (217) | 8,167 | (175) |
| CNY | 3,216 | (2,045) | 3,210 | (1,383) |
| GBP | 17,632 | (74,409) | 10,269 | (65,888) |
| INR | 6,909 | (10,500) | 3,373 | (4,508) |
| NZD | 1,464 | (27) | 2,102 | - |
| VND | 1,701 | (925) | 1,336 | (560) |
| CAD | 1,777 | (146) | 2,866 | (278) |
| Other Currencies | 12,554 | (6,480) | 9,315 | (3,281) |
| Total | 58,120 | (94,749) | 40,638 | (76,073) |

**Foreign currency sensitivity analysis**

The following table details the Group's sensitivity to a 10% movement in the Australian dollar against the significant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and foreign exchange contracts. A positive number below indicates an increase in profit or equity whereas a negative number below indicates a decrease in profit or equity.

| | | Effect on profit and loss | Effect on equity |
|---|---|---|---|
| **USD** | | **$'000** | **$'000** |
| 2018 | 10% | (984) | (984) |
| 2017 | 10% | (622) | (622) |
| **CNY** | | | |
| 2018 | 10% | (91) | (675) |
| 2017 | 10% | (142) | 560 |
| **GBP** | | | |
| 2018 | 10% | 130 | 1,070 |
| 2017 | 10% | 316 | (1,638) |
| **INR** | | | |
| 2018 | 10% | 279 | 1,820 |
| 2017 | 10% | 88 | 1,205 |
| **Other currencies** | | | |
| 2018 | 10% | (791) | (1,024) |
| 2017 | 10% | (903) | (874) |

## 20. Financial Instruments (continued)

### 20.2 Financial risk management objectives and policies (continued)

**Interest rate risk management**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

At 30 June 2018, the Group was exposed to the variable interest rate loans of $64.2 m (2017: $39.6m).

**Interest rate sensitivity analysis**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit is affected through the impact on floating rate borrowings, as follows:

| | Increase/decrease in basis points | Effect on profit and loss $'000 | Effect on equity $'000 |
|---|---|---|---|
| 2018 | 50 | 225 | 225 |
| 2017 | 50 | 138 | 138 |

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

**Liquidity risk management**

The Board of Directors is ultimately responsible for liquidity risk management. The Group has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate borrowing facilities by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Group has a policy which describes the manner in which cash balances will be invested. The investment policy is to ensure sufficient flexibility to capture investment opportunities as they may occur, yet maintain reasonable parameters in the execution of the investment program.

The following table summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. The table has been drawn up based on the net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

| | Less than 1 year $'000 | 1-5 years $'000 | More than 5 years $'000 | Total $'000 | Carrying amount $'000 |
|---|---|---|---|---|---|
| **30 June 2018** | | | | | |
| - Trade and other payables | 70,001 | - | - | 70,001 | 70,001 |
| - Interest-bearing borrowings | 6,414 | 59,977 | - | 66,391 | 63,928 |
| - Financial liabilities at fair value through profit or loss | 870 | - | - | 870 | 870 |
| - Foreign exchange forward contracts | 782 | - | - | 782 | 782 |
| | 78,067 | 59,977 | - | 138,044 | 135,581 |
| **30 June 2017** | | | | | |
| - Trade and other payables | 50,277 | 124 | - | 50,401 | 50,401 |
| - Interest-bearing borrowings | 814 | 40,817 | - | 41,631 | 39,108 |
| - Financial liabilities at fair value through profit or loss | 12,731 | - | - | 12,731 | 12,012 |
| - Foreign exchange forward contracts | 3,070 | - | - | 3,070 | 3,070 |
| | 66,892 | 40,941 | - | 107,833 | 104,591 |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 20. Financial Instruments (continued)

### 20.2 Financial risk management objectives and policies (continued)

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with financial institutions that are rated the equivalent of investment grade and above. Credit rating information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure for cash and cash equivalents is controlled by counterparty limits that are reviewed and approved by the Audit and Risk Committee annually.

The Group's customer base comprises Australia, UK, US, Canada and New Zealand universities and institutions and IELTS test centres. Credit risk assessments are conducted on new and renegotiated contracts to evaluate each customer's creditworthiness. Management considers the Group's credit risk is low due to the industry characteristic of major customers and the diverse customer base.

Management also considers many factors that influence the credit risk of its customer base including the industry default risk and country in which customers operate in. Management closely monitors the economic and political environment in geographical areas to limit the exposure to particular volatility. The Group's activities are increasingly geographically spread reducing the credit risk associated with one particular market or region.

For trade and other receivables the Group does not hold any credit derivatives or collateral to offset its credit exposure.

### 20.3 Fair value of financial instruments

**Critical accounting estimates and assumptions**

The Group measures fair value of financial instruments at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 20. Financial Instruments (continued)

### 20.3 Fair value of financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

| Financial assets/ financial liabilities | Fair value hierarchy | Fair value as at 30 June 2018 $'000 | Fair value as at 30 June 2017 $'000 | Valuation techniques and key inputs | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Foreign currency forward and options contracts | Level 2 | Assets: 1,572<br>Liabilities: 782 | Assets: 484<br>Liabilities: 3,070 | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. | N/A | N/A |
| Contingent consideration in business combinations/ investment in associate | Level 3 | 870 | 12,012 | Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration. | WACC<br>Probability of meeting contingent consideration KPIs | A slight decrease or increase in the discount rate used and/or KPIs probability in isolation would not result in a significant change in the fair value. |

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values as detailed in Note 20.1.

Reconciliation of Level 3 fair value measurements

| Contingent consideration | $'000 |
|---|---|
| As at 1 July 2016 | 2,356 |
| Settlement | (2,356) |
| Liabilities arising on business combination | 11,313 |
| Effect of foreign exchange rates and unwinding of discount | 699 |
| As at 30 June 2017 | 12,012 |
| Settlement | (13,546) |
| Liabilities arising on investment in an associate | 870 |
| Effect of foreign exchange rates and unwinding of discount | 1,534 |
| As at 30 June 2018 | 870 |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 20. Financial Instruments (continued)

### 20.4 Capital management

The Group's objective is to maintain an optimal capital structure for the business which ensures sufficient liquidity, provide returns for shareholders, benefits for other stakeholders and to minimise the cost of capital.

As at 30 June 2018, IDP Education has following facilities:

| | |
|---|---|
| Great British Pound £36,000,000 | Facility A: Acquisition funding 3-year unsecured Cash Advance loan facility for acquisition of Hotcourses Ltd |
| Australian Dollar $20,000,000 | Facility B: Multi-option loan facility 12-month unsecured to support both general corporate purposes and working capital requirements of the Group |
| Australian Dollar $7,000,000 | Facility C: Acquisition funding 3-year unsecured Cash Advance loan facility for investment in HCP Ltd |

The loan facilities are held with the National Australia Bank. The Company has complied with all bank lending requirements during the year and at the date of this report.

IDP Education's capital management is characterised by:

- Ongoing cash flow forecast analysis, detailed budgeting processes and consistent cash repatriation of surplus available cash from its overseas operations to ensure net cost of funds is minimised;
- The Group may adjust the level of dividends paid to shareholders, return capital to shareholders or issue new shares in order to maintain or adjust the capital structure;
- Maintain gearing to a level that does not limit IDP Education growth opportunities; and
- Monitor the gearing ratio of the Group.

As at 30 June 2018, the gearing ratio was 0.72 (2017: 0.73). The ratio is calculated as Total Debt to Earnings before Interest, depreciation and amortisation (EBITDA) as defined by the loan covenants.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## Other notes

### 21. Share-based payments

**Critical accounting estimates and assumptions**

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or performance right, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 21.3 below.

**Accounting policy**

Share-based compensation benefits are provided to key management personnel (KMP) and certain employees via long-term incentive (LTI) performance rights and options plan.

The fair value of equity-settled rights and options granted under the plans is recognised as an employee benefit expense over the period during which the employees become unconditionally entitled to the rights and options with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights and options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of rights and options that are expected to vest which are revised at the end of each reporting period. The impact of the revision to original estimates, if any, is recognised in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

The fair value is measured at grant date and the expense recognised over the life of the plan. The fair value of performance rights and options is independently determined using Monte Carlo Simulation or similar pricing model that takes into account the exercise price, the term of the plan, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected price volatility is based on the historic volatility (based on the remaining life of the plans), adjusted for any expected changes to future volatility due to publicly available information.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 21. Share-based payments (continued)

### 21.1 Performance rights and option plans

The LTI plan is designed to align executives' interest with those of shareholders by incentivising participants to deliver long term shareholders returns. Under the plan, participants are granted performance rights or options that have vesting hurdle. The vesting hurdles must be satisfied at the end of the performance period for the rights to vest.

Details of the current performance rights and options plans are summarised in the table below.

| Performance rights/options awards | No. of performance rights/Options | Grant date | Grant date fair value | Exercise price | Vesting conditions | Vesting date |
|---|---|---|---|---|---|---|
| The FY16 performance right award - tranche 1 | 369,267 | 19-Oct-15 | 1.68 | N/A | Net profit after tax | 31-Aug-18 |
| The FY16 performance right award - tranche 2 | 369,267 | 19-Oct-15 | 1.68 | N/A | Net profit after tax CAGR | 31-Aug-18 |
| The FY16 performance right award - tranche 3 | 369,101 | 19-Oct-15 | 0.95 | N/A | Total shareholder return CAGR | 31-Aug-18 |
| CEO incentive award - tranche 1 | 1,383,361 | 17-Aug-15 | 0.60 | 1.44 | Net profit after tax CAGR | 31-Aug-18 |
| CEO incentive award - tranche 2 | 1,383,361 | 17-Aug-15 | 0.60 | 1.44 | Net profit after tax CAGR | 31-Aug-18 |
| CEO incentive award - tranche 3 | 1,383,278 | 17-Aug-15 | 0.51 | 1.44 | Total shareholder return CAGR | 31-Aug-18 |
| FY17 LTI award – tranche 1 | 196,227 | 14-Sep-16 | 3.83 | N/A | EPS target CAGR | 31-Aug-19 |
| FY17 LTI award – tranche 2 | 196,223 | 14-Sep-16 | 2.56 | N/A | Total shareholder return CAGR | 31-Aug-19 |
| FY17 IDP plan award | 223,357 | 14-Sep-16 | 3.83 | N/A | EPS target CAGR | 31-Aug-19 |
| FY17 special incentive award – tranche 1 | 48,544 | 14-Sep-16 | 4.02 | N/A | Special KPIs | 31-Dec-17 (1) |
| FY17 special incentive award – tranche 2 | 48,543 | 14-Sep-16 | 3.93 | N/A | Special KPIs | 30-Sep-18 |
| Hotcourses earn out performance rights | 230,499 | 31-Jan-17 | 3.85 | N/A | Earn out per SPA and business integration success | 31-Jan-19 |
| FY18 LTI award – tranche 1 | 195,752 | 15-Sep-17 | 5.45 | N/A | EPS target CAGR | 31-Aug-20 |
| FY18 LTI award – tranche 2 | 195,746 | 15-Sep-17 | 4.07 | N/A | Total shareholder return hurdle | 31-Aug-20 |
| FY18 IDP plan award – tranche 1 | 138,771 | 15-Sep-17 | 5.45 | N/A | EPS target CAGR | 31-Aug-20 |
| FY18 IDP plan award – tranche 2 | 138,755 | 15-Sep-17 | 4.07 | N/A | Total shareholder return hurdle | 31-Aug-20 |

(1) An additional service vesting condition requires that the participant maintains continuous employment with the Company for 12 months from the Vesting Date

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 21. Share-based payments (continued)

### 21.2 Movements during the year

The table below summarises the movement in the number of performance rights/options in these plans during the year:

**2018**

| | Grant date | Vesting period (years) | Exercise price | Opening balance | Granted during the year | Vested during the year | Forfeited during the year | Closing balance |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of options or rights | | | | |
| **Options plan** | | | | | | | | |
| CEO incentive award options (1) | 17-Aug-15 | 3.0 | $1.44 | 4,150,000 | - | - | - | 4,150,000 |
| **Total Options** | | | | **4,150,000** | **-** | **-** | **-** | **4,150,000** |
| **Performance right plans** | | | | | | | | |
| The Prospectus performance award | 21-Feb-14 | 4.5 | $0.00 | 255,972 | - | (255,972) | - | - |
| 2014 LTI | 21-Feb-14 | 3.5 | $0.00 | 440,232 | - | (440,232) | - | - |
| 2014 LTI | 30-Jan-15 | 2.6 | $0.00 | 130,725 | - | (130,725) | - | - |
| FY16 performance rights award | 19-Oct-15 | 3.0 | $0.00 | 1,107,635 | - | - | - | 1,107,635 |
| FY17 LTI | 14-Sep-16 | 3.0 | $0.00 | 392,450 | - | - | (23,203) | 369,247 |
| FY17 IDP plan award | 14-Sep-16 | 3.0 | $0.00 | 237,865 | - | - | (14,508) | 223,357 |
| FY17 special incentive award | 14-Sep-16 | 1.6 | $0.00 | 97,087 | - | - | - | 97,087 |
| Deferred STI | 14-Sep-16 | 1.0 | $0.00 | 14,491 | - | (14,491) | - | - |
| Hotcourses earn out | 31-Jan-17 | 2.0 | $0.00 | 230,499 | - | - | - | 230,499 |
| FY18 LTI | 15-Sep-17 | 3.0 | $0.00 | - | 391,498 | - | (19,989) | 371,509 |
| FY18 IDP plan award | 15-Sep-17 | 3.0 | $0.00 | - | 277,526 | - | - | 277,526 |
| Deferred STI | 15-Sep-17 | 1.0 | $0.00 | - | 46,531 | (46,531) | - | - |
| **Total Performance Rights** | | | | **2,906,956** | **715,555** | **(887,951)** | **(57,700)** | **2,676,860** |
| **Total All Plans** | | | | **7,056,956** | **715,555** | **(887,951)** | **(57,700)** | **6,826,860** |
| **Weighted average exercise price** | | | | **0.85** | **-** | **-** | **-** | **0.88** |

(1) The expiry date of the CEO incentive award options is 17 August 2020

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 21. Share-based payments (continued)

### 21.2 Movements during the year (continued)

**2017**

| | Grant date | Vesting period (years) | Exercise price | Number of options or rights: Opening balance | Granted during the year | Vested during the year | Forfeited during the year | Closing balance |
|---|---|---|---|---|---|---|---|---|
| **Options plan** | | | | | | | | |
| CEO incentive award options (1) | 17-Aug-15 | 3.0 | $1.44 | 4,150,000 | - | - | - | 4,150,000 |
| **Total Options** | | | | **4,150,000** | **-** | **-** | **-** | **4,150,000** |
| **Performance right plans** | | | | | | | | |
| IPO award | 21-Feb-14 | 2.75 | $0.00 | 467,124 | - | (467,124) | - | - |
| The Prospectus performance award | 21-Feb-14 | 4.5 | $0.00 | 285,852 | - | (29,880) | - | 255,972 |
| 2013 LTI | 21-Feb-14 | 2.5 | $0.00 | 499,992 | - | (499,992) | - | - |
| 2013 LTI | 30-Jan-15 | 1.6 | $0.00 | 75,115 | - | (75,115) | - | - |
| 2014 LTI | 21-Feb-14 | 3.5 | $0.00 | 499,992 | - | (59,760) | - | 440,232 |
| 2014 LTI | 30-Jan-15 | 2.6 | $0.00 | 130,725 | - | - | - | 130,725 |
| FY16 performance rights award | 19-Oct-15 | 3.0 | $0.00 | 1,195,449 | - | (87,814) | - | 1,107,635 |
| FY17 LTI | 14-Sep-16 | 3.0 | $0.00 | - | 421,212 | (28,762) | - | 392,450 |
| FY17 IDP plan award | 14-Sep-16 | 3.0 | $0.00 | - | 237,865 | - | - | 237,865 |
| FY17 special incentive award | 14-Sep-16 | 1.6 | $0.00 | - | 97,087 | - | - | 97,087 |
| Deferred STI | 14-Sep-16 | 1.0 | $0.00 | - | 14,491 | - | - | 14,491 |
| Hotcourses earn out | 31-Jan-17 | 2.0 | $0.00 | - | 230,499 | - | - | 230,499 |
| **Total Performance Rights** | | | | **3,154,249** | **1,001,154** | **1,248,447** | **-** | **2,906,956** |
| **Total All Plans** | | | | **7,304,249** | **1,001,154** | **1,248,447** | **-** | **7,056,956** |
| **Weighted average exercise price** | | | | **0.82** | **-** | **-** | **-** | **0.85** |

(1) The expiry date of the CEO incentive award options is 17 August 2020

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 21. Share-based payments (continued)

### 21.3 Fair value and pricing model

The fair value of performance rights and options granted under the Plan is estimated at the date of grant using a Monte Carlo Simulation Model taking into account the terms and conditions upon with the performance rights/options were granted. The model simulates the total shareholders return of the Company to the vesting date using the Monte Carlo Simulation technique. The simulation repeated numerous times produce a distribution of payoff amounts. The performance rights fair value is taken as the average payoff amount calculated, discounted back to the valuation date.

In valuing the performance rights, a number of assumptions were used as shown in the table below:

| | 15 September 2017<br>Performance Rights |
|---|---|
| Exercise price | - |
| Share value at grant date | $5.80 |
| Expected volatility | 35% |
| Expected dividend yield | 2.13% |
| Risk free interest rate | 1.83% - 2.08% |

The expected volatility is a measure of the amount by which the price is expected to fluctuate during a period. As the Company's shares were not traded prior to listing on the ASX on 26 November 2015, the expected volatility was based on two comparator stocks using daily return data over 3 years and all available data for IEL.

### 21.4 Total share-based payment expenses for the year

The following expenses were recognised in employees benefit expenses during the year relating to share-based payments described above:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| LTI performance rights/options plans | 3,745 | 2,765 |
| | **3,745** | **2,765** |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 22. Related party transactions

Note 24 provide the information about the Group's structure including the details of the subsidiaries.

**Transactions with Key management personnel**

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| | $ | $ |
| Short-term employee benefits | 3,576,180 | 3,269,670 |
| Post-employment benefits | 140,935 | 159,012 |
| Other long-term benefits | 52,036 | 44,983 |
| Share-based payments | 1,566,849 | 1,649,348 |
| **Total compensation paid to key management personnel** | **5,336,000** | **5,123,013** |

Refer to the Remuneration Report, which forms part of the Directors' Report for further details regarding KMP's remuneration.

## 23. Remuneration of auditors

The auditor of IDP Education Limited is Deloitte Touche Tohmatsu (Australia). During the year, the following fees were paid or payable for services provided by the auditors of the Group or its related practices.

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| | $ | $ |
| **Group Auditor, Deloitte Touche Tohmatsu (Australia)** | | |
| Audit and review of financial statements | 460,000 | 450,000 |
| Other consultancy service | 49,750 | 69,873 |
| | | |
| **Member firms of Deloitte Touche Tohmatsu in relation to subsidiaries** | | |
| Audit and review of financial statements | 377,988 | 347,188 |
| Taxation advisory services | 12,916 | 18,515 |
| Other advisory services | 51,791 | 23,919 |
| | 952,445 | 909,495 |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 24. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows:

| Name of subsidiary | Principal activity | Place of incorporation and operation | Proportion of voting power controlled by the Group | |
|---|---|---|---|---|
| | | | 2018 | 2017 |
| IELTS Australia Pty Limited | Examinations | Australia | 100% | 100% |
| IDP World Pty Ltd | Holding company | Australia | 100% | 100% |
| IDP Education Pty (Korea) | Student Placements & Examinations | Korea | 100% | 100% |
| IDP Education Services Co. Ltd (1) | Student Placements & Examinations | Thailand | 100% | 100% |
| IDP Education Australia (Thailand) Co. Ltd (1) | English Language Teaching | Thailand | 100% | 100% |
| IDP Education (Vietnam) Ltd Company | Student Placements & Examinations | Vietnam | 100% | 100% |
| Yayasan Pendidikan Australia (2) | Student Placements & Examinations | Indonesia | 100% | 100% |
| IDP Consulting (Hong Kong) Co. Ltd | Holding company | Hong Kong | 100% | 100% |
| IDP Education India Pvt Ltd | Student Placements & Examinations | India | 100% | 100% |
| IDP Education Cambodia Ltd | Student Placements, Examinations & English Language Teaching | Cambodia | 100% | 100% |
| IDP Education LLC | Client Relations | United States of America | 100% | 100% |
| IDP Education UK Limited | Client Relations | United Kingdom | 100% | 100% |
| IDP Education (Canada) Ltd | Client Relations & Examinations | Canada | 100% | 100% |
| IDP Education (Bangladesh) Pvt Ltd | Student Placements & Examinations | Bangladesh | 100% | 100% |
| IDP Education (Egypt) LLC | Student Placements & Examinations | Egypt | 100% | 100% |
| IDP Education Consulting (Beijing) Co., Ltd | Student Placements | China | 100% | 100% |
| IDP Business Consulting (Shanghai) Co., Ltd | Student Placements | China | 100% | 100% |
| Beijing Promising Education Limited | Student Placements | China | 100% | 100% |
| IDP Education Services New Zealand Limited | Student Placements & Examinations | New Zealand | 100% | 100% |
| IDP Education Turkey LLC | Student Placements & Examinations | Turkey | 100% | 100% |
| IDP Education Lanka (Private) Limited | Student Placements & Examinations | Sri Lanka | 100% | 100% |
| IDP Education Pakistan (Private) Limited | Examinations | Pakistan | 100% | 100% |
| IDP Education Nepal Private Limited | Examinations | Nepal | 100% | 100% |
| Hotcourses Limited | Digital marketing and online students recruitment | United Kingdom | 100% | 100% |
| The Complete University Guide Limited | Digital marketing | United Kingdom | 100% | 100% |
| Hotrcouses Data Limited | Digital marketing | United Kingdom | 100% | 100% |
| West London Business Academy Limited (3) | Dormant | United Kingdom | 100% | 100% |
| Hotcourses Inc | Client Relations | United States of America | 100% | 100% |
| Hotcourses Pty Limited | Client Relations | Australia | 100% | 100% |
| Hotcourses India Private Limited | Online services | India | 100% | 100% |
| IDP Education Student Services Nepal Private Limited | Student Placements | Nepal | 51% | - |
| IDP Education India Services LLP | Shared services | India | 100% | - |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 24. Subsidiaries (continued)

(1) IDP Education Limited owns 100% ordinary Class A shares, which represents 49% of total shares of IDP Education Australia (Thailand) Co. Ltd and IDP Education Services Co. Ltd. According to the company constitution, ordinary Class A shares holds 100% voting right of the company. Based on these facts and circumstances, management determined that, in substance, the Group controls these entities with no non-controlling interest

(2) Foundation controlled through IDP Education Limited's capacity to control management of the company

(3) West London Business Academy Limited was dissolved on 24 July 2018

## 25. Associate

### Accounting policy

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with AASB 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 25. Associate (continued)

| Name of associate | Principal activity | Place of incorporation and operation | Proportion of voting power held by the Group | |
|---|---|---|---|---|
| | | | 2018 | 2017 |
| HCP Limited | English language test preparation and online services | China | 20% | - |

On 4 July 2017, IDP Education completed the investment of a 20% equity interest in HCP Limited, a Chinese company specialising in delivering English language test preparation materials via social media and its mobile application.

Summarised financial information in respect of the associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRS.

| | 30 June 2018 |
|---|---|
| | $'000 |
| Current assets | 3,302 |
| Non-current assets | 6,238 |
| Current liabilities | 388 |
| Non-current liabilities | 925 |

| | |
|---|---|
| Revenue | 2,417 |
| Profit for the year | (1,244) |
| Other comprehensive income for the year | - |
| Total comprehensive income | (1,244) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in HCP Limited recognised in the consolidated financial statements:

| | 30 June 2018 |
|---|---|
| | $'000 |
| Net assets of the associate | 8,227 |
| Proportion of the Group's ownership interest in HCP Limited | 1,646 |
| Goodwill | 3,096 |
| Carrying amount of the Group's interest in HCP Limited | 4,742 |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 26. Deed of Cross Guarantee

The following wholly-owned entities have entered into a Deed of Cross Guarantee.

| Company | Financial year entered into agreement |
|---|---|
| IDP Education Limited | 30 June 2017 |
| IELTS Australia Pty Limited* | 30 June 2017 |
| IDP World Pty Ltd* | 30 June 2017 |

* These entities are not required to prepare and lodge a financial report and directors' report under ASIC Corporations (Wholly owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The companies that are members of this deed guarantee the debts of the others and represent the "Closed Group" from the date of entering into the agreement. These are the only members of the Deed of Cross Guarantee and therefore these companies also represent the 'Extended Closed Group'.

### 26.1 Statement of profit or loss, other comprehensive income and a summary of movements in consolidated retained profits of the Closed Group for Deed of Cross Guarantee purposes

| **Statement of comprehensive income** | **30 June 2018 $'000** | **30 June 2017 $'000** |
|---|---|---|
| Revenue | 258,235 | 240,630 |
| Dividend income | 5,607 | 7,240 |
| Expenses | (189,373) | (187,755) |
| Depreciation and amortisation | (4,463) | (2,743) |
| Finance income | 148 | 187 |
| Finance costs | (2,344) | (1,014) |
| Share of loss of an associate | (258) | - |
| Profit for the year before income tax expense | **67,552** | **56,545** |
| Income tax expense | (19,589) | (16,427) |
| Profit for the year of the Closed Group | **47,963** | **40,118** |
| | | |
| **Other comprehensive income** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Net investment hedge of foreign operations | (2,824) | (983) |
| Exchange differences arising on translating the foreign operations | (11) | (100) |
| Gain/loss arising on changes in fair value of hedging instruments entered into for cash flow hedges | | |
| Forward foreign exchange contracts | 644 | 6 |
| Cumulative gain/loss arising on changes in fair value of hedging instruments reclassified to profit or loss | 701 | 2,353 |
| Income tax related to gains/losses recognised in other comprehensive income | 138 | (413) |
| *Items that will not be reclassified subsequently to profit or loss:* | - | - |
| Other comprehensive income for the year, net of income tax | (1,352) | 863 |
| Total comprehensive income for the year of the Closed Group | 46,611 | 40,981 |

| **Summary of movements in consolidated retained profits** | **30 June 2018 $'000** | **30 June 2017 $'000** |
|---|---|---|
| Retained profits at 1 July | 50,330 | 41,499 |
| Profit for the year | 47,963 | 40,118 |
| Dividends paid | (35,041) | (31,287) |
| Retained profits at 30 June of the Closed Group | 63,252 | 50,330 |

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 26. Deed of Cross Guarantee (continued)

### 26.2 Consolidated statement of financial position of the Closed Group for Deed of Cross Guarantee purposes

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| | $'000 | $'000 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 25,225 | 27,318 |
| Trade and other receivables | 42,911 | 34,512 |
| Derivative financial instruments | 1,245 | 484 |
| Current tax assets | 2,009 | 474 |
| Other current assets | 5,006 | 3,671 |
| **Total current assets** | **76,396** | **66,459** |
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | 63,245 | 63,177 |
| Investments in an associate | 4,742 | - |
| Property, plant and equipment | 7,052 | 5,009 |
| Intangible assets | 72,647 | 52,739 |
| Capitalised development costs | 5,506 | 9,901 |
| Deferred tax assets | 2,073 | 3,517 |
| Other non-current assets | 462 | 204 |
| **Total non-current assets** | **155,727** | **134,547** |
| **TOTAL ASSETS** | **232,123** | **201,006** |
| CURRENT LIABILITIES | | |
| Trade and other payables | 70,383 | 57,344 |
| Borrowings | 5,000 | - |
| Deferred revenue | 5,719 | 6,843 |
| Provisions | 6,452 | 4,946 |
| Current tax liabilities | - | 412 |
| Financial liabilities at fair value through profit or loss | 870 | 12,012 |
| Derivative financial instruments | 669 | 3,070 |
| **Total current liabilities** | **89,093** | **84,627** |
| NON-CURRENT LIABILITIES | | |
| Trade and other payables | 657 | 124 |
| Borrowings | 58,928 | 39,108 |
| Derivative financial instruments | 113 | - |
| Provisions | 3,498 | 2,936 |
| **Total non-current liabilities** | **63,196** | **42,168** |
| **TOTAL LIABILITIES** | **152,289** | **126,795** |
| **NET ASSETS** | **79,834** | **74,211** |
| EQUITY | | |
| Issued capital | 9,734 | 19,426 |
| Reserves | 6,848 | 4,455 |
| Retained earnings | 63,252 | 50,330 |
| **TOTAL EQUITY** | **79,834** | **74,211** |

As at 30 June 2018, the Closed Group is in a net current liability position of $12.7m (2017:$18.2m) mainly due to $31.1m (2017: $26.6m) intercompany payables to the other subsidiaries within the IDP Group. The Directors are of the opinion that the Closed Group is a going concern based on the following factors:

- $15m unutilised multi-option facility with maturity date of 17 January 2019 and $2.9m cash advance term facility with maturity date of 18 January 2020;
- The parent entity has full discretion on the timing of settling intercompany balances;
- The strong performance of the Closed Group including net profit after tax $48.0m (2017: $40.1m) and strong cash inflow from operating activities; and
- The Closed Group's net asset position of $79.8m (2017: $74.2m).

# Notes to the consolidated financial statements for the year ended 30 June 2018

## 27. Parent entity information

IDP Education Limited is the parent entity of the Group. The financial information presented below represents that of the parent and is not comparable to the consolidated results.

**Financial information**

| **Financial position** | **30 June 2018** | **30 June 2017** |
|---|---|---|
| | **$'000** | **$'000** |
| Current assets | 72,136 | 49,263 |
| Total assets | 224,539 | 180,522 |
| Current liabilities | 136,995 | 132,865 |
| Total liabilities | 200,147 | 175,032 |
| **Equity** | | |
| Issued capital | 9,734 | 19,426 |
| Retained earnings | 7,898 | (19,119) |
| Reserves | 6,760 | 5,183 |
| **Total equity** | **24,392** | **5,490** |

| **Financial performance** | **30 June 2018** | **30 June 2017** |
|---|---|---|
| Profit for the year | 62,058 | 2,579 |
| Other comprehensive income | 1,577 | 2,116 |
| **Total comprehensive income** | **63,635** | **4,695** |

During the year, the parent entity received $72.1m dividends income from the subsidiaries (2017: $7.2m).

The parent entity is in a net current liability position of $64.9m (2017: $83.6m) mainly due to $100.1m (2017: $109.6m) intercompany payables to the subsidiaries within the Group. The Directors are of the opinion that the parent entity is a going concern based on the factors below:

- The parent entity has full discretion on the timing of settling intercompany balances; and
- The parent entity is a member of the deed of cross guarantee Closed Group as disclosed in Note 26, in which members of this deed guarantee the debts of the others.

## 28. Contingent liabilities

The Directors are not aware of any significant contingent liabilities as at 30 June 2018 (2017: nil).

## 29. Events after the reporting period

Except for the dividends declared as detailed in the Note 6, there were no other significant events since the balance sheet date.

## Directors' declaration

In the Directors' opinion:

(a) the consolidated financial statements and notes of IDP Education Limited and its controlled entities (the Group) set out on pages 41 to 90 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001,* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date; 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.

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 26 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in note 26.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

| | |
|---|---|
| Peter Polson | Andrew Barkla |
| Chairman | Managing Director |

Melbourne

22 August 2018

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# Independent Auditor's Report
# to the members of IDP Education Limited

**Report on the Audit of the Financial Report**

We have audited the financial report of IDP Education Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company would be in the same terms if given to the directors as at the time of this auditor's report.

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

*Key Audit Matters*

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

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Assessment of uncertain tax positions**<br><br>*Refer to Note 5 Taxation*<br><br>The Group operates across a large number of jurisdictions and is subject to investigations and audit activities by revenue authorities on a range of tax matters, estimates and assumptions during the normal course of business, including transfer pricing, indirect taxes and transaction related tax matters. Management exercise significant judgement in the determination of the tax position in relation these. | Our procedures included, but were not limited to:<br><br>• Understanding the process that management have undertaken to identify and assess uncertain tax positions, including the monitoring and consideration of guidance issued by regulatory authorities,<br><br>• In conjunction with our tax specialists:<br><br>○ Assessing the current status of tax assessments and investigations and the process to monitor developments in ongoing disputes by management,<br><br>○ Reviewing external tax advice where available, including assessing the independence, competency and objectivity of the advisors, and<br><br>○ Reviewing recent rulings and correspondence with local tax authorities, to assess that the tax provisions had been appropriately accounted for or adjusted to reflect the latest external tax developments.<br><br>We also assessed the appropriateness of the disclosures in the Notes to the financial statements. |

*Other Information*

The directors are responsible for the other information. The other information comprises the Directors' Report included in the Group's annual report for the year ended 30 June 2018 but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Directors for the Financial Report*

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 has no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 20 to 38 of the Director's Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of IDP Education Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Genevra Cavallo

Genevra Cavallo
Partner
Chartered Accountants
Melbourne, 22 August 2018

## Corporate Directory

**Directors**
Peter Polson
*Chairman*

Andrew Barkla
*Managing Director and Chief Executive Officer*

Ariane Barker

Professor David Battersby AM

Chris Leptos AM

Professor Colin J. Stirling

Greg West

**Secretary**
Murray Walton

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**Auditor**
Deloitte Touche Tohmatsu
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**Stock exchange listing**
IDP Education Limited shares are listed on the Australian Securities Exchange (Listing code: IEL)

**Website**
www.idp.com

**ABN**
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