# EDU UK INTERMEDIATE LTD ANNUAL REPORT & FINANCIAL STATEMENTS

## YEAR ENDED 31 December 2013

## Registered Number: 07285315

**EDU UK INTERMEDIATE LTD**

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## EDU UK INTERMEDIATE LTD

### DIRECTORS AND CORPORATE INFORMATION

### DIRECTORS

A Petersen
P Wilde
H Mackay-Cruise (resigned 19 February 2013)
P Corso (resigned 31 May 2013)
D Leigh (appointed 01 March 2013)
D Rammal (appointed 03 June 2013)
E Lancaster (appointed 15 July 2013)

### INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
The Portland Building
25 High Street
Crawley
RH10 1BG

### SECRETARY

Baker and McKenzie

### REGISTERED OFFICE

1 Billinton Way, Brighton UK

### COMPANY REGISTERED NUMBER

Registered in England No. 07285315

**EDU UK INTERMEDIATE LTD**
**STRATEGIC REVIEW**

**Overview of the year**

The Directors present their report and the audited consolidated financial statements for EDU UK Intermediate Ltd 'the Company' and its subsidiaries, together 'the Group' or 'Study Group', for the year ended 31 December 2013. The principal activity of the business is the provision of education services, which are delivered over 3 divisions.

2013 has been a key year in Study Group's growth and development. Underlying performance continues to grow with continuing revenue of £251.4 million increasing by 6% and Adjusted Continuing EBITDA of £34.5 million by 20% compared with the prior year. Continuing revenue is reconciled to statutory revenue on page 3 and Adjusted Continuing EBITDA is reconciled to statutory EBITDA on the face of the statement of comprehensive income on page 20.

The Group has continued with its strategy of developing new partnerships with our chosen university partners with the signing of three new partnerships during the year, being the University of Sheffield in the United Kingdom (which will open in 2015); the University of Maine (which also launched in 2013) and the University of Vermont both in the North America (which launched in 2014). Additionally, in 2013, the Group took over the contract to operate ANU College, which is the international study centre (ISC) at Australia National University in Canberra, Australia and opened an ISC at Flinders University in Adelaide, Australia and the University of Strathclyde in the United Kingdom. We also renewed our relationships with Keele University in the UK.Our Higher Education ('HE') division continued to show growth in both revenue and EBITDA. Career Education had strong New Student Enrolment ('NSE') growth but revenue and EBITDA were impacted by a change in delivery, resulting in a change of accounting for certain courses. Embassy had a challenging year with reductions in volume being offset by price increases to drive some small revenue growth, although the Embassy summer school bounced back with 22% increase in revenue growth.

During 2013 we successfully completed the relocation of our head office from Sydney to London.

On 18 September 2013, through its subsidiary EDU UK BondCo PLC, the Group issued principal amounts of £205.0 million in 8.875% senior secured notes due on 15 September 2018 ('the bond issue'). The notes are listed on the Luxembourg Stock Exchange and were admitted to trading on 18 September 2013. Study Group used the proceeds from the bond issue to repay existing bank debt of £119.8 million and to redeem £74.5 million of preference shares with EDU UK Topco Ltd, who in turn repaid £74.5 million of shareholder loan notes. The remaining proceeds were used to settle issuance costs. In connection with the issue, Study Group obtained a £30.0 million revolving credit facility ('RCF') from a consortium of banks.

**Key performance indicators**

Our financial and non-financial KPIs are as follows. These KPI's are selected for monitoring with the Group's medium term goal of continued revenue and EBITDA growth.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2012** | **% variance** |
| Adjusted continuing revenue (£'000) | 251,432 | 237,066 | 6% |
| Adjusted continuing EBITDA (£'000) | 34,542 | 28,886 | 20% |
| Leverage ratio (iii) | 4.9 | NA | |
| **Student weeks taught (i) ('000)** | | | |
| Higher Education division | 332 | 315 | 5% |
| Embassy | 192 | 202 | (5%) |
| **Total student weeks taught** | **525** | **517** | **2%** |
| **New student enrolments (NSE) (ii)** | | | |
| Higher Education division | 8,113 | 8,000 | 1% |

(i) Student weeks taught represents the number of weeks in which a single student is taught in one of our courses or subjects.
(ii) NSE represents one new student arriving and enrolling in a course.
(iii) Leverage ratio is defined as Net debt divided by EBITDA as adjusted for items as defined by our revolving credit facility

No 2012 comparative is presented as this ratio was not calculated on the same basis in 2012.

Our results by division are summarised as follows:

| £'000 | Revenue | | | | Adjusted EBITDA(ii) (iii) | | |
|---|---|---|---|---|---|---|---|
| | Year ended 31 December | | | | Year ended 31 December | | |
| | 2013 | 2012 | % variance | | 2013 | 2012(iii) | % var |
| HE UK | 109,542 | 100,754 | 9% | | 31,148 | 27,619 | 13% |
| HE ANZ | 46,844 | 44,404 | 5% | | 4,816 | 2,487 | 94% |
| HE NA | 5,250 | 4,398 | 19% | | (1,943) | (1,074) | (81%) |
| Total HE | 161,636 | 149,556 | 8% | | 34,021 | 29,032 | 17% |
| Career Education | 30,437 | 30,899 | (1%) | | 2,500 | 3,529 | (29%) |
| Embassy | 62,178 | 60,743 | 2% | | 2,954 | 2,061 | 43% |
| Unallocated Corporate | - | - | - | | (5,206) | (5,171) | (1%) |
| **Total Revenue/Adjusted EBITDA** | **254,251** | **241,198** | **5%** | | **34,269** | **29,451** | **16%** |
| **Of which:** | | | | | | | |
| **Continuing Revenue / Adjusted EBITDA(i)** | **251,432** | **237,066** | **6%** | | **34,542** | **28,888** | **20%** |

(i) Continuing Revenue and Continuing Adjusted EBITDA are non GAAP measures and represent revenue and adjusted EBITDA as adjusted to reflect certain non-recurring items, including closure of the Taylor's Melbourne High School programme, non-renewal of the ISC contract with Monash University and rationalisation of the placement business in the United States.
(ii) Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment and exceptional and other items. (Other items are not necessarily non-recurring in nature, but the Directors believe that it is helpful to show these amounts separately as they are not directly linked to the trading operations of the business).
(iii) Adjusted EBITDA has been restated for 2012, see note 6 to the financial statements.

Adjusted EBITDA for 2013 has been impacted by a number of accounting policy changes and changes to business operations. The impact is summarised below, and discussed in more detail in the following sections.

**Reconciliation of reported EBITDA to adjusted continuing like for like EBITDA £'000**

| | 2013 | 2012(iv) | % variance |
|---|---|---|---|
| Reported Adjusted EBITDA | 34,269 | 29,451 | 16% |
| Less: impact of non-continuing operations | 273 | (563) | |
| Adjusted continuing EBITDA | 34,542 | 28,888 | 20% |
| Impact on revenue of change in course delivery within Career Education | 2,375 | - | |
| Impact on cost of change in policy with respect to pre-opening costs | 1,226 | - | |
| Impact on EBITDA of expensing costs previously capitalised | 530 | - | |
| Adjusted continuing like for like EBITDA | 38,673 | 28,888 | 34% |

(iv) Restated, see note 6 to the financial statements

**Student Volumes**
Student weeks taught has increased by 2% compared with the prior year. Higher Education student weeks increased by 5% compared with prior year, which, combined with increased pricing, is reflected in the revenue growth. Embassy student weeks declined slightly, although the decline was compensated for with price, leading to revenue growth.

Higher Education NSE growth was 1.5% compared with the prior year. Although there was strong growth in HE ANZ volumes, the overall growth was depressed by a decline in the autumn intake in the HE UK division.

**Revenue**
The Group's main sources of revenue comprise: Tuition revenue (being revenue in the form of fees paid for courses); accommodation revenue (being revenue received for the provision of accommodation to students); other revenue (for example includes student services or progression revenue from a University partner when the student progresses to that college) and placement revenue (being revenue received when we place students into our partner colleges in the United States).

For the year ended 31 December 2013, the increase in continuing revenue was £14.4 million or 6%. This increase was primarily generated by continued growth in our Higher Education division, notably in the UK. The increase in revenue is driven by student volumes during 2013, compared with 2012, combined with price increases across the majority of programmes.

During the year, our Career Education division started delivering more distance learning courses to our students online as 26 week modules. Previously materials were despatched to the student at the start of the course and they had 10 years to complete the material. Our policy is to defer revenue from online courses and recognise it over the life of the course, whereas revenue from traditional distance learning courses is recognised on despatch of the materials following the transfer of risks and rewards. As a result, revenue in our Career Education division is £2.4 million lower in 2013 than it would have been under the old delivery method, with this revenue being released to the statement of comprehensive income during 2014. Had the new courses been accounted for using the same method as the old courses, revenue in Career Education would have increased 6% to £32.8 million with overall Group revenue also growing by 7%.

Embassy revenue increased by 2% despite a reduction in student weeks taught, which reflects favourable pricing achieved in the market. The Summer School business, which reflects 30% of Embassy revenue, performed strongly with student weeks growing 14% to 38,000, and revenue by 22% to £18.6 million.

*Non-continuing operations*
In December 2013, the decision was made to close the Taylors High School programme in Melbourne in order to rationalise our High School campuses from three to two and ensure we have critical mass in each location. We will continue to teach out the existing cohort of students during 2014. Continuing revenue therefore excludes revenue earned from this programme of £2.4 million (2012: £3.0 million). There was a related EBITDA loss in 2013 of £0.6 million (2012: £0.1 million profit).

Continuing revenue excludes revenue earned from our contract with Monash University, which expired during 2011, but from which revenue was earned during 2012 as the final cohort of students was taught out. Revenue earned from the Monash contract during the year was £nil (December 2012: £0.4 million). EBITDA for the year was £nil (2012: £nil).

It also excludes revenue from the centres which are part of our US Placement business and which we continued to rationalise during the period. Placement revenue for the year ended 31 December 2013 was £0.4 million (December 2012: £0.8 million). EBITDA for the year was £0.4 million (2012: £0.5 million).

**Operating expenses**
Direct student costs have increased by £5.9 million or 8% during the year. This reflects the higher costs of accommodation associated with the increase in the number of students.

Employee benefits have increased by £1.2 million or 1% for the year, reflecting increases in salaries as well as slight headcount increases across the business.

Occupancy expenses decreased £0.7 million or 3% during the year partly as a result of the continued rationalisation of the Group's property portfolio

Marketing costs have increased by £0.3 million or 3% compared with the prior year which is broadly in line with inflation in the jurisdictions in which we operate.

Administrative expenses before exceptional and other items increased by £1.6 million or 17%. £1.2 million of this increase is due to the change in accounting treatment with respect to centre pre-set up costs. During 2012 these were deferred on the balance sheet and expensed over the life of the centre contract once it was open. Having reviewed industry practice, we have concluded it is most appropriate to expense these as incurred and expensed the £1.2 million of costs we incurred during 2013 relating to pre-set up costs. The remainder of the increase is consistent with the growth of the business.

**Adjusted EBITDA**
Adjusted continuing EBITDA increased by 20% to £34.5 million in the year. The largest growth driver continued to be the HE UK business, where EBITDA increased by 13% as a result of increased revenue combined with tight cost control.

Our ANZ Higher Education business also saw strong EBITDA growth. This was largely volume driven with NSEs increasing by 15%. We launched a new partnership in Australia (ANU College). However, this only came online in November and the full year impact will not be felt until 2014.

Our North American Higher Education (HENA) business is less mature than our UK and ANZ businesses, with a number of our Study Centres being in the pre-opening or start-up phase. We estimate that it takes a Study Centre 2-3 years after opening to achieve profitability and therefore the continued EBITDA loss is as a consequence of us operating more ISCs in the start-up phase. EBITDA losses on ISCs, which opened within the last two years, and which continued to be loss making totalled £0.6 million (2012: £0.1 million). When the impact of these centres, non-continuing operations, and the change in accounting policy relating to Centre set-up costs (discussed above) is stripped out, HENA Adjusted continuing EBITDA loss was £0.9 million (2012: loss of £1.5 million).

As discussed above, following a change in course delivery mechanism within the Career Education business, revenue on some of our courses is being spread over the course period rather than recognised on despatch of materials. The impact on EBITDA within Career Education of this change in approach is £2.4 million. Had the new courses been accounted for using the same method as the old courses, revenue in Career Education would have increased Adjusted Continuing EBITDA increased by 23% year on year, driven by higher volumes as a result of a wider course offering.

The Embassy business had a challenging year in 2013 in terms of revenue growth. However margin improvements led to an increase in Adjusted EBITDA of 43% to £3.0 million. This reflects weaker volumes in the year round business, although the summer school business had a strong year as discussed above.

During the year, management undertook a review of capital expenditure and concluded that £0.5 million of costs capitalised earlier during 2013, should be expensed as operating expenditure. This contributed to higher unallocated corporate costs.

**Exceptional and Other items**
Exceptional items are items which are material in size or are non-recurring in nature. Other items are those we believe are beneficial to strip out when analysing the underlying trading result. Full detailed of exceptional items are included in note 6.

2013 was a transformational year for Study Group with the conclusion of the cost saving project and relocation of the Head Office from Sydney to London. Restructuring expenses of £5.8 million were incurred in connection with these programmes, being £2.0 million on the cost saving initiatives and £2.3 million on the Head Office relocation. In addition, following the appointment of a new senior management team, a number of divisions also were restructured and the total costs associated with this were £1.5 million during the year.

The Group incurred one off settlement costs of £0.6 million in relation to a litigation claim raised in the United States.

The directors reviewed the Group's accounting policy with respect to centre pre-opening costs. During 2012 these were deferred on the balance sheet and expensed over the life of the centre contract once it was open. Having reviewed industry practice, we have concluded it is most appropriate to expense these as incurred. As of 1 January 2013 these costs (totalling £1.2 million across the Group) have been expensed within underlying EBITDA in the statement of comprehensive income. We have also written off costs incurred prior to 31 December 2012 of £1.0 million within other items.

During the year, management completed a review of the Group's property portfolio and identified a number of vacant or onerous leases and other property related provisions. Onerous lease provisions of £3.2 million have been recorded along with other property provisions of £0.2 million.

The Group also incurred £1.5 million of management fees and expenses charged by Providence Equity and Petersen Investments. These are included within other expenses. Prior to the relocation of the head office from Sydney to London, certain central costs were recharged from Australia to the UK. These recharges attract irrecoverable reverse charge VAT of £0.4 million. As these costs will not recur now that relocation is complete, these costs are included within other items.

An impairment charge of £18.0 million was recognised at 30 June 2013 as a result of the softening in Embassy enrolments and the anticipated underperformance against Embassy budgets (see note 7). No further impairment has been recognised in the six months to 31 December 2013.

**Finance expense**
Net finance expense during 2013 before exceptional finance expenses was consistent with 2012. The refinancing occurred in September so the full impact on the Group's interest expense will not be felt until 2014.

Exceptional finance expenses of £10.3 million were incurred, comprising a £4.4 million write-off of debt issuance costs relating to the previous financing structure and £5.9 million of advisors fees in connection with the issuance of the secured loan notes in September 2013.

The Group has significant multi-currency intra-group loans arising from the finance structure. Unrealised foreign exchange losses of £21.7 million (2012: £2.3 million) are included within other items. During 2013 the exchange losses were significant following the strengthening of the GBP against the Australian Dollar.

**Taxation**
The Group incurred a total tax charge of £7.0 million (2012: credit of £4.9 million) being a current tax charge of £2.1 million (2012: £3.9 million) and a deferred tax charge of £4.9 million (2012: credit of £8.9 million). In total, cash tax of £6.0 million (2012: £3.3 million) was paid. During the year, a review of deferred tax assets was undertaken in light of the new financing structure following the issue of the £205 million of senior secured notes. Following this review, tax assets totalling £16.3 million outside the UK were deemed to be insufficiently certain of recovery and were written off, resulting in the deferred tax charge.

**Impact of foreign exchange**
The Group's largest operations are in the United Kingdom, Australia and the United States. As a result, the Group's consolidated results can be sensitive to movements in foreign exchange. On a constant currency basis, using the exchange rate of AUD 1.6135 to £1 and US$ 1.5627 to £1, revenue and adjusted EBITDA would be as follows:

| £'000 | Full year to December | | |
|---|---|---|---|
| | 2013 | 2012 | % var |
| Revenue | 254,251 | 238,559 | 7% |
| Adjusted EBITDA | 34,269 | 29,571 | 16% |

**Balance sheet position**
Following the issuance of the secured loan notes, third party borrowings increased by approximately £77.3 million. The proceeds from the issuance were used to repay existing bank loans. In addition the Group wrote off loan arrangement fees connected with the former financing structure and capitalised direct borrowing costs in connection with the bond issue. The Company redeemed £74.5 million of preference shares with EDU UK Topco Ltd, who in turn, repaid £74.5 million of shareholder loan notes. The remaining cash proceeds were used to pay transaction fees of £5.9 million.

The Group generated operating cash flow during the year of £17.9 million (2012: £25.9 million), and an increase in cash from £15.6 million at 1 January 2013 to £17.5 million at 31 December 2013. This represents free cash flow (being cash available to service debt) of £3.6 million (2012: £13.6 million). A reconciliation of Adjusted EBITDA to free cash flow is set out below. Our free cash flow for 2013 was adversely affected by the number of exceptional items as discussed in note 6. It was also impacted by higher levels of cash tax payable due to a catch up payment of £2.6 million. Free cash flow excluding exceptional items is £16.5 million (2012: £16.0 million).

| Reconciliation of Adjusted EBITDA to Free Cash flow £'000 | 2013 | 2012 |
|---|---|---|
| Adjusted EBITDA | 34,269 | 29,450 |
| Exceptional and other items (excluding impairment charge) | (13,101) | (2,387) |
| Movement in working capital | (3,250) | (1,261) |
| Cash tax paid | (6,057) | (3,314) |
| Capital expenditure and other investment activities | (8,266) | (8,999) |
| Other movements | 11 | 121 |
| Free Cash flow | 3,606 | 13,610 |
| Free cashflow excluding exceptional items | 16,707 | 15,997 |

£3.1 million of the new Revolving Credit Facility ('RCF') had been drawn down at 31 December 2013, principally in order to finance the transfer of the trade and assets of ANU College, as a result of the timing of the acquisition in the Group's working capital cycle (see note 20 to the financial statements).

**Future outlook and strategy**
In our Higher Education divisions, Study Group remains committed to a strategy of working with the best University partners to ensure we can offer the right propositions to our students to support them with the next phase of their education. To this end, we are constantly looking for new opportunities to expand our offering with our current partners, and longer term, explore new partnerships. In our Career Education division, we see further opportunities to move course content on-line, and expand our range of courses. Within our Embassy division, we are investing in our student proposition to refresh the offering and continuing to drive operational efficiency.

We are also focussed on developing our sales and marketing function in order to work better with our agents and develop direct channels, in order to drive future revenue growth.

We believe that this strategy, combined with a continued focus on operational effectiveness and efficiency will be supportive of continued longer term revenue and EBITDA growth at a group level.

## PRINCIPAL RISKS AND UNCERTAINTIES

A risk management framework is in place and under ongoing review and development. The Board is responsible for overseeing the framework. The most significant risks are described below:

**Economic, market and trading risks**
*Industry drivers impacting demand for Higher and Language Education*
We believe that the key industry drivers for our Higher Education and Embassy divisions include:

- globalization, in particular strong wealth creation and economic growth in emerging markets,
- together with the increasing international mobility of students;
- the recognition of English as the global business language;
- the importance of an English language education;
- the importance (and limited domestic supply) of tertiary education in emerging markets; and
- demand by Anglophone universities for full fee paying international students.

In addition, if foreign direct investment in emerging markets were to slow down, demand for a foreign-educated, English-speaking workforce may decline and some families would likely no longer be able to afford a foreign education for their children.
We note that under the current European Union regulatory regime, the tuition fees of international higher education students from outside the European Union are not subject to caps, while the tuition fees of students from the European Union are capped. However, should caps be imposed on the tuition fees of such students, demand for international students may decrease.

We source our students from 145 countries and have campuses in 5 countries worldwide, which provides a degree of mitigation against these risks.

*Government FEE-HELP within our Career Education division*
The success of our Career Education division depends partly on the ability of our students to secure tuition loans, as well as employment upon graduation. Specifically, programs in our Career Education division are eligible for FEE-HELP, an Australian government scheme that provides students who are Australian citizens or permanent humanitarian visa holders with an income-contingent loan to cover their tuition fees for certain qualified programs, including those related to Vocational Education and Training ('VET'). FEE-HELP related funding accounted for approximately 66% and 76% of our Career Education revenue for the years ended 31 December 2012 and 31 December 2013 respectively. Accordingly, if our programs lost FEE-HELP eligibility due to changes in regulation or otherwise, we would likely experience lower enrolment, which could adversely affect the results of our Career Education division.

Our Career Education division is the only division impacted by government fee help which mitigates the risk.

*Visa frameworks and immigration policy*
Our ability to recruit international students to our programs in the United Kingdom and Europe, Australia and New Zealand, and North America depends on the ability of those students to procure visas, which is impacted by the visa regulatory frameworks and immigration policy in those countries. We continually monitor the process by which our students are granted visas through training agents in market, tracking compliance with governmental policy both pre-arrival and post-arrival and reporting any individual student circumstances that are required to be reported.

*Political risks in source countries*
Our student enrolments could be adversely affected by the political climate in source countries. However, our students join us from 145 countries which mitigates this risk.

**Contract risks**
*University partners*
We maintain relationships in the form of contractual agreements with numerous universities in the United Kingdom and Europe, Australia and New Zealand, and North America. We also maintain licensing arrangements to co-brand certain programs and ISCs, which allow us to market the university partner directly to potential students. Should our relationships with any of our university partners deteriorate, we may experience a reduction in student enrolment as a result, which could impact on our financial results.

In addition, our contracts with our university partners typically contain an agreement on our part to follow certain strict quality control measures, including minimum student progression rates, annual reviews of course content with university partners and regular inspections from industry associations. Should our university partners find that we are not in compliance with the quality control measures in our contracts, they may choose to not renew our contract upon its expiry or bring a claim or initiate litigation against us for breach of contract, which would adversely affect our reputation and business, operations and prospects.

We work closely with our university partners to ensure that we are adhering to the terms of our contractual arrangements.

*Agent relationships*

For our Higher Education and Embassy divisions, our key student recruitment platform is our global network of more than 2,500 independent education agents, who recruit our students from over 145 countries. In our Higher Education and Embassy divisions, we currently recruit approximately 80% and 90%, respectively, of our students through this network of education agents, with the remaining 20% and 10%, respectively, coming from alternative channels, including direct recruitment and feeder schools. As a result, we rely primarily on this network of education agents to recruit our international students and market our programs.

Our management structure is designed to ensure that we manage our agent relationships effectively and we constantly review our approach to ensure that we are able to continuously improve in this area.

**Financial position**

The Group is highly leveraged and has a leverage covenant associated with the revolving credit facility which must be met. The required leverage ratio gets lower over time and therefore in order to meet the covenant, the Group must deliver growth in adjusted EBITDA. We monitor our covenant requirements on a regular basis to ensure that we have time to take mitigating action in the event of a projected reduction in our leverage ratio.

**Foreign currency risk**

It is our general practice to collect revenues and pay expenses in the local currency of each country in which we operate. Conducting business across multiple currencies subjects us to currency fluctuation risks which could impact our business and reported results. In particular, our business is sensitive to fluctuations in the Australian dollar versus Pounds Sterling.

EBITDA for the year was generated as follows: 92% in Pounds Sterling; 14% in Australian dollars and (4%) in US dollars and (2%) other. Our external debt is denominated in Pounds Sterling and therefore we are exposed to foreign exchange risk as the interest payments on the debt are in Pounds Sterling but a proportion of our cash flows are in other currencies. We do not currently hedge this foreign exchange exposure, but keep this position under constant review and may decide to do so in the future. In addition, our senior secured net leverage ratio, (upon which our RCF covenant compliance is calculated) is impacted by movements in foreign exchange rates; however this is something we regularly monitor and sensitise. We also regularly review whether it would be beneficial to take out a foreign currency hedge to mitigate this risk.

See Directors' Report (pages 11-13) for discussion on the Group's management of currency risk and liquidity risk.

**Business change and operational risk**

Executing business change programmes, including changes to IT systems, organisation structure or relationships with partners and suppliers, present a variety of risks both in terms of our ability to deliver on objectives as well as minimising disruption to business as usual.

We have agreed governance structures in place within the Group to mitigate and monitor risks arising from any on-going change programmes.

**Business systems risks**

We rely heavily on information technology systems and our online platform to operate our websites, facilitate student enrolment online, deliver our programs across our various divisions and maintain cost-efficient operations. Given the significant number of client-oriented and internal processes that require technological capabilities, it is vital to maintain constant operation of our computer hardware and software systems and maintain cyber security. In common with all businesses, our information technology systems and online platform are vulnerable to damage or interruption from power loss, telecommunications failures, data corruption, network failure, computer viruses, security breaches, natural disasters, third-party intrusions or other technical malfunctions despite, where possible, efforts to prevent such damage or interruption.

In order to mitigate these risks, Study Group's Production IT systems are housed in Tier 4 Data Centres and operate with redundant and fault tolerant configurations to minimise the risk of catastrophic failure. They are backed up with both onsite and offsite copies held for recovery purposes. A Disaster Recovery facility with similar equipment levels to that of the production system is kept to allow for speedy restoration of core capabilities in the unlikely event of a prolonged outage to the primary environment. All systems are monitored for environmental factors and system performance by a dedicated team of professionals.

**Reputational risk**
Our reputation could be adversely affected under many circumstances, including the following:

- we are unable to adequately update and expand the content of our existing programs and develop new programs;
- the quality of our curricula, teaching staff or program facilities are not perceived as sufficient by parents and students;
- there are accidents, epidemics or other events that adversely affect students in the local communities in which we operate;
- members of our staff or our education agents behave or are perceived to behave inappropriately or illegally or fail to appropriately supervise children under their care; and/or students engage in illegal or inappropriate conduct that poses a health and safety risk for the students or the surrounding local community and a public relations risk for our business.

We continuously review our operations to ensure that we are able to respond to and mitigate any reputational risks.

**Litigation risk**
In common with most other businesses, from time to time, we are subject to litigation. The occurrence of material litigation could have an adverse effect on our financial results in the event of an unfavourable outcome. This could also have an impact on our reputation and brand within the marketplace. We employ internal counsel and retain outside counsel to provide advice in the event of any litigation.

**EDU UK INTERMEDIATE LTD**
**DIRECTORS REPORT**

## GENERAL INFORMATION

EDU UK Intermediate Limited ('the Company') is a holding company registered in England and Wales with the Company number 07285315. This is the first year of consolidated accounts for the Group following the Bond Issue. The comparatives for the year ended 31 December 2012 have been prepared based on the underlying books and records of the Group and also reflect the consolidated position for the Group as if it has existed on 1 January 2012, but have not been audited.

The Directors present their report and the audited consolidated financial statements for EDU UK Intermediate Ltd 'the Company' and its subsidiaries, together 'the Group' or 'Study Group', for the year ended 31 December 2013. The company is a holding company registered in England (no. 07285315) and domiciled in the United Kingdom with its registered office at 1 Billinton Way, Brighton, East Sussex, BN1 4LF, and the Group is headquartered in London.

## PRINCIPAL ACTIVITIES

Study Group is a leading international provider of preparatory programmes for higher education courses, career education and English language programmes in the United Kingdom and Europe, Australia and New Zealand and North America. We deliver our programmes to over 50,000 international students from more than 145 countries each year.

The subsidiaries and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in note 10 to the financial statements.

On 18 September 2013, through its subsidiary EDU UK BondCo PLC, the Company issued principal amounts of £205.0 million in 8.875% senior secured notes due on 15 September 2018 ('the bond issue'). The notes are listed on the Luxembourg Stock Exchange and were admitted to trading on 18 September 2013. Study Group used the proceeds from the bond issue to repay existing bank debt of £119.8 million and to repay £74.5 million of shareholder loan notes. The remaining proceeds were used to settle issuance costs. In connection with the issue, Study Group obtained a £30.0 million revolving credit facility ('RCF') from a consortium of banks.

## ULTIMATE PARENT COMPANY

The immediate parent undertaking is EDU LuxCo S.a.r.l. In the view of the directors, the ultimate parent undertaking and controlling party is Providence Equity Partners VI International LP, a company incorporated in the Cayman Islands.

## RESULT AND DIVIDENDS

The Group loss for the year after taxation amounted to £68.8 million (31 December 2012: £4.2 million). Of this, no loss is attributable to non-controlling interests. The directors do not recommend payment of a dividend (31 December 2012: £nil).

## BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The information contained in the Strategic Review constitutes the review of the Group's business. It also contains details of expected future developments in the business of the Group, information about expenditure and key performance indicators used by management.

## DIRECTORS

The persons who were directors at any time during or since the end of the financial year are listed below; details of the directors and their background are set out on page 13:

A Petersen (Chairman of the Audit Committee, representing Petersen Investments)
P Wilde (representing Providence Equity Partners)
H Mackay-Cruise (resigned 19 February 2013)
P Corso (resigned 31 May 2013)
D Leigh (CEO, appointed 01 March 2013)
D Rammal (representing Providence Equity Partners, appointed 03 June 2013)
E Lancaster (CFO, appointed 22 April 2013)

The directors have no direct interest in the shares of the Company.

Providence Equity Partners, Petersen Investments, D. Leigh, E. Lancaster and J. Hood have an indirect interest through their interests in the company's parent, EDU Luxco S.a.r.l.

## DIRECTORS' INDEMNITIES

The Company maintains liability insurance for its directors and officers. The Company has also provided an indemnity for its directors, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This indemnity has been in place throughout the financial year and is in place as at the date of this report.

## FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, some cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from its operations. The Group's financial liabilities comprise borrowings, trade creditors and other creditors, the main purpose of which is to raise finance for the Group's operations. The Group also has financial assets comprising cash, trade and other debtors.

It is, and has been throughout the year under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have been reviewed and remain unchanged.

### Interest rate risk

The Group's primary exposure to market interest rates relates to the Group's long-term borrowing obligations with floating interest rates. During the year this risk was managed primarily through the use of interest rate swap contracts which effectively fixed interest on 75% of the initial loan balance. These have all been closed out by the end of the year.

### Credit risk

Credit risk refers to the risk that a-counterparty will default on its contractual obligations resulting in financial loss to the Group. This risk is mitigated by agents and students generally paying tuition fees prior to course commencement.

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built 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 cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The group actively monitors compliance with its covenants relating to the revolving credit facility. Note 16 includes detail of additional undrawn facilities that the Company and Group has at its disposal to further reduce liquidity risk.

### Foreign currency risk

The Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group is mainly exposed to Australian dollars and US dollars. The risk is mitigated by revenues being billed in the currency where the services/operating costs are delivered/incurred. During the year, the group did not actively hedge foreign currency exposure but it continues to monitor whether a hedging strategy would be beneficial

## PERSONNEL POLICIES

It is the policy of the Group to follow equal opportunity employment practices and these include the full consideration of employment prospects for the disabled.

The Group's employment policies are regularly reviewed and updated to ensure that they remain effective. The policies are designed to promote a collaborative working environment, free from discrimination which supports the recruitment and retention of effective employees.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes.

**EDU UK INTERMEDIATE LTD**
**DIRECTORS REPORT (CONT'D)**

The Group places importance on the contributions to be made by all employees to the progress of the Group and aims to keep them informed by the use of formal and informal meetings as well as the Group's intranet site, email, employee forums and newsletters.

## GOING CONCERN

Following the issuance of the secured loan notes, the Group's previous financial covenants are no longer in force. The RCF requires that the Group's leverage ratio, currently being 5x, is no more than 7.3x. This requirement has been met and is forecast to be met for the foreseeable future.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. The Group and Company therefore continue to adopt the going concern basis in preparing its consolidated and parent company financial statements.

## EVENTS AFTER THE BALANCE SHEET DATE

Events between the balance sheet date and the date the financial statements were issued are disclosed in note 26.

## STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

So far as each of the directors at the time the report is approved are aware:

- there is no relevant audit information of which the auditors are unaware and

- they have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

## INDEPENDENT AUDITORS

A resolution to re-appoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the forthcoming Annual General Meeting.

Approved by the board and signed on its behalf by

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D Leigh
**Director**

12 March 2014

## EDU UK INTERMEDIATE LTD
## BOARD OF DIRECTORS AND KEY MANAGEMENT

The Board of Directors is made up of the following individuals, being a balance of executive directors and non-executive directors representing Providence Equity Partners and Petersen Investments, as well as independent directors:

**John Hood**
Chairman
Study Group

John Hood is President and Chief Executive Officer of the Robertson Foundation. From 2004 until September 2009, he was Vice-Chancellor of the University of Oxford. He was formerly Vice-Chancellor of the University of Auckland and a member of the Growth and Innovation Advisory Board and the Enterprise Council of the Prime Minister of New Zealand.

He has also been a director of a number of New Zealand-based companies, including the Fonterra Co-operative Group Ltd and ASB Bank Ltd, a subsidiary of the Commonwealth Bank of Australia, and was Chairman of Tonkin & Taylor Ltd.

John is the Chair of the Rhodes Trust in addition to serving as a director of BG Group plc and as Non-Executive Chairman of Matakina Technology Ltd in New Zealand. He was appointed a non-executive director of Study Group in January 2011.

**Arvid Petersen**
Managing Director, Petersen Investments

Arvid Petersen is Managing Director of Petersen Investments. Based in Sydney Australia, Petersen Investments is a diversified investment company focusing on private equity, property and other family office related entities.

Mr Petersen has had a long and successful history in private education with his first investment in 1994. A founding shareholder of Study Group Australia, Mr Petersen led the growth of the company prior to selling to DMGT in 2003.

In 2006 Mr Petersen partnered with CHAMP private equity to buy the global operations of Study Group. After growing the business significantly over the ensuing five years, the company was then sold to Providence Equity Partners in 2010. Mr Petersen has remained on the board of Study Group and retains a significant shareholding.

Prior to his involvement in private education, Mr Petersen was the President of Blackwood's Beverages in Calgary, Canada. Mr Petersen spent 20 years with Pepsi Cola, coming to Australia in 1989 to establish Pepsi Cola Bottlers Australia, where he was the founding Managing Director.

Mr Petersen also serves on the boards of directors of Waratahs Rugby Club, DMG Radio and the Petersen Family Foundation.

**David Leigh**
Chief Executive Officer
Study Group

David Leigh joined Study Group as CEO in March 2013. Prior to joining Study Group, David was CEO of SHL, the global leader in talent assessment with a presence in more than 50 countries. Prior to SHL, he was on the Executive Committee of Groupe Steria, with responsibility for Business Process Outsourcing.

David's earlier background was in private equity (iFormation Group, a joint venture between Goldman Sachs, General Atlantic Partners and the Boston Consulting Group), consulting (McKinsey & Co) and law (Herbert Smith).

David has an MA in Social and Political Sciences from Cambridge University and a post-graduate legal qualification from the College of Law, London.

**Emma Lancaster**
Chief Financial Officer
Study Group

Emma Lancaster joined Study Group in April 2013 and she is responsible for the global financial and operational management of Study Group.
Emma was CFO of SHL Group Ltd for 11 years, during which time it was both a public company and private equity backed. Prior to SHL, she was Director of Finance and Business Development at The Rank Group plc. Emma's early career was at Arthur Andersen in a variety of both client-facing and internal roles in the Global Corporate Finance group.
Emma has a BA (Hons) in Zoology from Oxford University (Keble College), UK.

## EDU UK INTERMEDIATE LTD
## BOARD OF DIRECTORS AND KEY MANAGEMENT

**Peter O. Wilde**
Managing Director,
Providence Equity Partners
Peter Wilde is a managing director based in our Providence office. Mr. Wilde is the global head of education, data, and information sectors at providence. Mr.Wilde is currently a director of Archipelago Learning, Ascend Learning, Decision Resources, Edline, Education Management Corp., NEW Asurion and Study Group.

Prior to joining Providence in 2002, Mr. Wilde was a general partner at BCI Partners, where he began his career in private equity in 1992. While at BCI, he was involved in many of BCI's investment activities in media, education and marketing services companies. Prior to BCI, Mr. Wilde worked at LaSalle Partners in the acquisitions group.

Mr. Wilde received a Master of Business Administration from Harvard Business School and a Bachelor of Arts from Colorado College.

**Dany Rammal**
Managing Director
Providence Equity Partners
Dany Rammal is a managing director based in the London office of Providence Equity Partners. Mr Rammal is currently a director of Digital Platform İletişim Hizmetleri (Digiturk), Galileo Global Education and Study Group.

Prior to joining Providence Equity Partners in 2008, Mr Rammal was a vice president in the media and communications group within investment banking at Morgan Stanley in London, where he worked on transactions across a variety of sectors including fixed and wireless telecommunications, cable and satellite.

Previously, Mr Rammal worked in Paris as a management consultant with both KPMG Consulting and Diamondcluster International.

Mr Rammal received a Master of Business Administration from INSEAD and a Master of Science in Communications Engineering from L'École Supérieure d'Électricité

**Patrick Corso**
Managing Director, Head of Hong Kong office,
Providence Equity Partners
Patrick Corso is a managing director and head of the Providence Equity Partners Hong Kong office. Mr Corso is currently a director of Study Group.

Mr Corso joined Providence in 2003 in the London office and relocated to Hong Kong office in 2008. Prior to joining Providence, Mr. Corso was an investment banker in the media and telecommunications sectors at Credit Suisse First Boston and Morgan Stanley in London, as well as, a corporate development executive at Trader Classified Media.

He received a bachelor's degree in European Business Administration from the European Business School in London.

**Steve Alesio**
Senior Advisor,
Providence Equity Partners

Steven W. Alesio is currently Senior Advisor for Providence Equity Partners. In that capacity Steve focuses on the Information and For-Profit Education industries. He is Chairman of two portfolio companies-Blackboard, Inc. and Altegrity, Inc. and a Director of three other portfolio companies (CDW Technology, Ascend Learning, and Study Group).

Steve retired from the Dun & Bradstreet Corporation in July 2010 after nearly a 10 year career at this global commercial information company. Steve joined D&B in 2001 as a Senior Vice-President. In 2002, Steve was named President and Chief Operating Officer, and was elected to its Board of Directors. In 2005, Steve was chosen to be the CEO and also became Chairman of the Board that same year. Under Steve's leadership, D&B's performance for much of the past decade was one of consistent double-digit earnings growth, increasing revenue growth, product innovations and a model culture for its employees.
Prior to joining D&B, Steve spent 19 years with the American Express Company, where he was rose through the ranks in marketing and general management. His last responsibility at American Express was as president and general manager of the Business Services Group, a unit that served small businesses in the US with financial products. In that role, Steve was also a member of the company's Policy and Planning Committee.

Steve is also the founding sponsor and Co-Chair for the non-profit, All Stars Project of New Jersey, which provides outside-of-school development and education programming to thousands of inner-city young people in Newark and its surrounding communities.

Steve received a bachelor's degree from St. Francis College in 1976 and master's degree in business administration from the University of Pennsylvania's Wharton School in 1981.

**Dennis Dracup**
Operating Partner, Providence Equity Partners

Dennis Dracup is an operating partner of Providence Equity Partners. Prior to joining Providence Equity Partners in 2013, Mr Dracup was most recently executive chairman of Language Line Services, the world's largest language interpretation company.

Mr Dracup also served as CEO of Language Line Services from 2001 to 2011. Before that, Mr Dracup held various senior management positions, including CEO of Gemkey.com, president of Pitney Bowes Software Solutions and vice president and general manager of Moore Business Communication Services.

Mr Dracup currently serves on the boards of Language Line Services and Sorenson Communications.

Mr Dracup received a Master of Business Administration from the State University of New York, a Master of Science from Roosevelt University and a Bachelor of Arts from Canisius College.

**The Global Executive Team**

The Global Executive Team (GET) is responsible for the day to day management of the Group's affairs and strategic decision making. It is led by the Group CEO, David Leigh. All members of the team have extensive experience in, and in-depth knowledge of, the education sector or the function that they lead. The members of the GET and their roles are as follows:

**GET:**

David Leigh, Chief Executive Officer
Emma Lancaster, Chief Financial Officer
James Pitman, Managing Director, Higher Education UK and Europe
Warren Jacobson, Managing Director, ANZ
Larry Green, Managing Director, North American Higher Education
Jean Vernor, Managing Director, Embassy
Yuri Narciss, Executive Director, Sales and Marketing
David Reeve, Group Chief Information Technology Officer
Jeanette Gooding, Chief Human Resources Officer

EDU UK INTERMEDIATE LTD

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

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D Leigh
**Director**
12 March 2014

## *Independent Auditors Report to the members of EDU UK Intermediate Ltd*

**Report on the group financial statements**

**Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

**What we have audited**

The group financial statements (the "financial statements"), which are prepared by EDU UK Intermediate Ltd, comprise:

- the group statement of financial position as at 31 December 2013;
- the group statement of comprehensive income for the year then ended;
- the group statement of cash flows for the year then ended;
- the group statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

**What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Other matters on which we are required to report by exception**

**Adequacy of information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

**Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the directors**

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the directors**

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other matter**

We have reported separately on the parent company financial statements of EDU UK Intermediate Ltd for the year ended 31 December 2013.

**Alan Kinnear (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Crawley
12 March 2014

## EDU UK INTERMEDIATE LTD

### GROUP STATEMENT OF COMPREHENSIVE INCOME
for the Year ended 31 December 2013

| | Note | Before Exceptional and Other Items 2013 | Exceptional and Other Items Note 6 2013 | Total 2013 | Unaudited Before Exceptional and Other Items Restated* 2012 | Unaudited Exceptional and Other Items Note 6 Restated* 2012 | Unaudited Total Restated* 2012 |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Revenue | 2 | 254,251 | - | 254,251 | 241,198 | - | 241,198 |
| Direct student costs | | (76,384) | (937) | (77,321) | (70,489) | - | (70,489) |
| Employee benefits | | (96,970) | (5,806) | (102,776) | (95,782) | (3,232) | (99,014) |
| Occupancy expense | | (25,365) | (2,488) | (27,853) | (26,053) | 2,914 | (23,139) |
| Marketing expenses | | (10,664) | - | (10,664) | (10,400) | - | (10,400) |
| Administrative expenses* | | (10,599) | (3,870) | (14,469) | (9,023) | (2,069) | (11,092) |
| **EARNINGS BEFORE DEPRECIATION, AMORTISATION, IMPAIRMENT, NET FINANCING COSTS AND TAXATION:** | 2 | **34,269** | **(13,101)** | **21,168** | **29,451** | **(2,387)** | **27,064** |
| Goodwill impairment | | - | (18,000) | (18,000) | - | - | - |
| Depreciation and amortisation | | (19,025) | - | (19,025) | (19,059) | - | (19,059) |
| **OPERATING (LOSS)/PROFIT** | 4 | **15,244** | **(31,101)** | **(15,857)** | **10,392** | **(2,387)** | **8,005** |
| Finance income* | 3 | 962 | - | 962 | 613 | - | 613 |
| Finance costs* | 3 | (14,844) | (32,063) | (46,907) | (14,225) | (2,342) | (16,566) |
| Share of profit of associates | | 18 | - | 18 | - | - | - |
| **LOSS BEFORE TAXATION** | | **1,380** | **(63,164)** | **(61,784)** | **(3,220)** | **(4,729)** | **(7,949)** |
| Taxation (charge)/credit | 5 | (10,869) | 3,880 | (6,989) | 3,794 | - | 3,794 |
| **LOSS FOR THE YEAR AFTER TAXATION** | | **(9,489)** | **(59,284)** | **(68,773)** | **574** | **(4,729)** | **(4,155)** |
| **OTHER COMPREHENSIVE LOSS** | | | | | | | |
| *Items that may be subsequently reclassified to profit of loss:* | | | | | | | |
| Exchange differences on translation of foreign operations | | (9,279) | - | (9,279) | (1,871) | - | (1,871) |
| **OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX** | | **(9,279)** | **-** | **(9,279)** | **(1,871)** | **-** | **(1,871)** |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(18,768)** | **(59,284)** | **(78,052)** | **(1,297)** | **(4,729)** | **(6,026)** |

All of the activities of the Group are continuing.

*The comparative period figures have been reclassified as further detailed in notes 3 and 6.
There are no material differences between the profit on ordinary activities before taxation and the profit for the financial year stated and their historical cost equivalents.

## EDU UK INTERMEDIATE LTD

### GROUP STATEMENT OF FINANCIAL POSITION
at 31 December 2013

| | Note | 31 December 2013 £'000 | Unaudited 31 December 2012 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Goodwill | 7 | 356,547 | 409,605 |
| Intangible assets | 8 | 46,064 | 57,876 |
| Property, plant and equipment | 9 | 21,744 | 20,863 |
| Investments | 10 | 120 | 123 |
| Deferred tax assets | 17 | 996 | 25,556 |
| Trade and other receivables | 11 | 4,726 | 5,579 |
| | | 430,197 | 519,602 |
| CURRENT ASSETS | | | |
| Inventories | | 103 | 95 |
| Trade and other receivables | 11 | 88,916 | 89,580 |
| Current tax assets | 12 | 1,723 | - |
| Cash and cash equivalents | | 17,536 | 15,630 |
| | | 108,278 | 105,305 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Borrowings | 15 | 3,068 | 23,763 |
| Current tax payable | | 155 | 2,325 |
| Unearned revenues | | 116,219 | 115,955 |
| Trade and other payables | 13 | 55,581 | 53,578 |
| Provisions | 14 | 6,837 | 5,793 |
| | | 181,860 | 201,414 |
| NET CURRENT LIABILITIES | | (73,582) | (96,109) |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 15 | 200,142 | 99,032 |
| Unearned revenues | | 10,482 | 10,717 |
| Trade and other payables | 13 | 6,689 | 5,727 |
| Provisions | 14 | 4,824 | 2,493 |
| Deferred tax liabilities | 17 | 3,470 | 21,302 |
| Other financial liabilities | | - | 779 |
| | | 225,607 | 140,050 |
| **NET ASSETS** | | **131,008** | **283,443** |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | | | |
| Share capital | 18 | - | - |
| Preference Share Capital | | 222,272 | 273,782 |
| Translation reserve | | 8,773 | 18,052 |
| Accumulated losses | | (100,037) | (8,391) |
| **TOTAL SHAREHOLDERS' FUNDS** | | **131,008** | **283,443** |

The financial statements and notes on pages 20 to 59 were approved by the Board of directors on 12 March 2014 and were signed on its behalf by David Leigh.

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D. Leigh

**Director EDU UK Intermediate Ltd Registered no. 07285315**

EDU UK INTERMEDIATE LTD

## GROUP STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2013

| 2013 | Ordinary Share Capital £'000 | Preference Share Capital £'000 | Translation Reserve £'000 | Accumulated Losses £'000 | Total Equity £'000 |
|---|---|---|---|---|---|
| **Balance at the start of the year** | - | 273,782 | 18,052 | (8,391) | 283,443 |
| Loss for the period | - | - | - | (68,773) | (68,773) |
| Exchange losses on translation of foreign operations | - | - | (9,279) | - | (9,279) |
| Total comprehensive (loss) for the year | - | - | (9,279) | (68,773) | (78,052) |
| Repayment of subordinated preference certificates | - | (51,510) | - | (22,990) | (74,500) |
| Employee share option charge | - | - | - | 117 | 117 |
| **Balance at 31 December** | - | 222,272 | 8,773 | (100,037) | 131,008 |

| 2012 unaudited | Ordinary Share Capital £'000 | Preference Share Capital £'000 | Translation Reserve £'000 | Accumulated Losses £'000 | Total Equity £'000 |
|---|---|---|---|---|---|
| **Balance at the start of the year** | - | 273,782 | 19,923 | (4,236) | 289,469 |
| Loss for the period | - | - | - | (4,155) | (4,155) |
| Exchange losses on translation of foreign operations | - | - | (1,871) | - | (1,871) |
| Total comprehensive income/(loss) for the year | - | - | (1,871) | (4,155) | (6,026) |
| **Balance at 31 December** | - | 273,782 | 18,052 | (8,391) | 283,443 |

## GROUP CASH FLOW STATEMENT
for the Year ended 31 December 2013

| | 2013<br>£'000 | Unaudited<br>2012<br>£'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash generated from operations (note 19) | **17,928** | 25,898 |
| Interest paid and financing costs | **(13,323)** | (12,132) |
| Tax paid | **(6,057)** | (3,314) |
| Net cash generated from/(used in) operating activities | **(1,452)** | 10,452 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | **210** | 251 |
| Proceeds from sale of Property Plant and Equipment | **-** | 659 |
| Purchase of businesses (note 20) | **(392)** | - |
| Purchase of fixed assets | **(4,381)** | (4,532) |
| Purchase of intangibles | **(3,703)** | (5,377) |
| Net cash used in investing activities | **(8,266)** | (8,999) |
| **CASH FLOWS FROM FINANCING ACTIVITES** | | |
| (Repayment) / draw down of revolver facility | **(8,073)** | 7,060 |
| Proceeds from draw down of revolver facility | **3,068** | - |
| Proceeds from issue of senior secured loan notes net of issue costs | **199,786** | - |
| Repayment of bank borrowings | **(107,275)** | - |
| Repayments of Eurobond | **(74,500)** | (10,517) |
| Net cash generated from/(used in) financing activities | **13,006** | (3,457) |
| Net increase/(decrease) in cash and cash equivalents | **3,288** | (2,004) |
| Cash and cash equivalents at the beginning of the financial year | **15,630** | 17,783 |
| Effect of exchange rate movements | **(1,382)** | (149) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **17,536** | 15,630 |

# 1. SIGNIFICANT ACCOUNTING POLICIES

## 1.1 GENERAL INFORMATION

**Date of incorporation**
EDU UK Intermediate Ltd was incorporated on 15 June 2010 and is a company incorporated in the United Kingdom and domiciled in the United Kingdom. The Group consolidated financial statements were authorised for issue by the Board of Directors on 12 March 2014.
**Accounting policies for the year ended 31 December 2013**
The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

## 1.2 BASIS OF PREPARATION

These financial statements are based on the consolidated results of the EDU UK Intermediate Ltd Group for the year to 31 December 2013. The comparatives are unaudited as the Company took advantage of the exemption under section 401 of the Companies Act not to prepare consolidated financial statements at this level in 2012 as consolidated financial statements were prepared and made publically available at the ultimate parent company level, EDU UK Topco Ltd.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), and the Companies Act 2006 applicable to companies reporting under IFRS and IFRIC interpretations.

This is the first set of financial statements prepared in accordance with IFRS. Note 1.4 gives further details of the impact of the transition and application of IFRS 1 'First-time adoption of International Financial Reporting Standards'.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS 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 consolidated financial statements are disclosed in note 1.27.

The Group meets its day-to-day working capital requirements through its bank facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

As further described in notes 3 and 6 the classification of certain foreign exchange gains and losses and of certain exceptional items within the Group Statement of Comprehensive Income for the comparative period has been changed. These reclassifications are to achieve a clearer presentation of the Group's results and have no impact on the gross loss before tax or total comprehensive loss for the year.

## 1.3 BASIS OF CONSOLIDATION

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 1.3 BASIS OF CONSOLIDATION (CONT'D)

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions and balances between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 1.4 ADOPTION OF NEW AND REVISED STANDARDS

*New and amended standards adopted by the Group.*

**IFRS 13** ***Fair Value Measurement*** (effective 1 January 2013): It explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value measurements extensively. Therefore, application of this standard by the Group does not affect any of the amounts recognised in the financial statements, but impacts the type of information disclosed.

**Amendments to IAS 1:** ***Presentation of Financial Statements*** (effective 1 January 2013) Amendments to IAS 1 require items within other comprehensive income that may be classified to the statement of comprehensive income to be grouped together. The amendment relates to disclosures only and has no impact on the reported results or balance sheet of the Group.

**IFRS 10** ***Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities and revised IAS 27 Separate Financial Statements*** (effective 1 January 2014. The Group has early adopted these policies).

In August 2011, a suite of new and amended standards which address the accounting for joint arrangements and consolidated financial statements were issued.

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. This does not result in a change to the consolidated entities.

IFRS 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. The Group operates a Joint Venture which is accounted for using the equity method.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**1.4 ADOPTION OF NEW AND REVISED STANDARDS (CONT'D)**

IFRS 12 'Interests in other Entities' sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments in the year-end financial statements. The applicable IFRS 12 disclosures are provided where material.

IAS 27 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the consolidated financial statements.

**IFRS 1 *Transition to IFRS***

This is the Group's first set of consolidated financial statements at this level under a following the bond issue that was completed on 18 September 2013. In previous years' consolidated financial statements were prepared by the Group's immediate parent, EDU UK Topco Ltd under the IFRS reporting standards and are considered to be materially the same as those accounts.

The accounting policies as set out in note xx of these consolidated financial statements have been applied in preparing the consolidated financial information for the periods ended 31 December 2013 and 31 December 2012 and both financial periods have been prepared at the level of the revised ownership structure.

Financial statements in individual entities are reported under their local GAAP financial reporting standards. Relevant adjustments have been made to these entities' local GAAP statutory accounts to comply with IFRS for the consolidation of the financial statements.

**IFRS 8 *Operating Segments***

The Group is now required to apply IFRS 8 'Operating Segments' due to the Group now having publicly listed debt on the Luxembourg stock exchange. The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group CEO, who is considered to be the 'chief operating decision maker' for the purpose of evaluating segment performance and allocating resources. The Group CEO does not receive or review information relating to total assets and liabilities on a segmental basis and therefore these disclosures have not been included.

**1.5 REVENUE RECOGNITION**

Revenue is recognised as follows:

(a) **Tuition revenue**

Course fees are brought to account when service is provided and is spread evenly over the duration of the course. Discounts and bursaries given to students are netted against tuition revenue.

(b) **Distance learning revenue**

Revenue from online distance learning courses is recognised over the duration of the course. Revenue from other distance learning courses where course material is delivered in hard copy is recognised on despatch of the material, which is when our obligation to the student is discharged.

(c) **Accommodation revenue**

Accommodation revenue is recognised as the accommodation service is provided.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 1.5 REVENUE RECOGNITION

**(d) Placement revenue**

Placement revenue is recognised when the following conditions are met:

- the student commences the academic term at their enrolled institution; and
- initial payment is received.

**(e) Other revenue**

Other revenue is recognised when the amount can be reliably measured and it is probable that future economic benefits will flow to the entity.

### 1.6 STUDENT ACQUISITION COSTS

Commission and bonuses paid to third party agents are deferred on the balance sheet and recognised over the same period as the related student revenue.

### 1.7 PRE-OPENING COSTS

Study Group incurs a number of different costs when setting up a new centre. These include centre staff costs pre-opening, marketing and brochure costs, contract negotiation costs, curriculum and programme development, administrative set up and launch project management. During the year ended 31 December 2012 mobilisation costs were deferred on the balance sheet and expensed over the life of the minimum centre contract. From 1 January 2013 following a change in accounting policy, these costs have been expensed as incurred. No restatement of comparative amounts is considered necessary on grounds of materiality. Costs on the balance sheet at 31 December 2012 have been expensed during 2013 as an exceptional item.

### 1.8 LEASES

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received and predetermined non-contingent rent increases are recognised in the statement of comprehensive income as an integral part of the total lease expense over the lease term.

### 1.9 EXCEPTIONAL AND OTHER ITEMS

Due to their material nature certain exceptional and non-trading items have been classified separately in order to draw them to the attention of the reader. In the judgement of the Directors this presentation shows the underlying business performance of the Group more accurately. Significant non-recurring items of income and expenditure are disclosed as exceptional items to help provide an understanding of the Group's underlying performance. Exceptional items comprise inter alia, impairment charges, restructuring costs, costs associated with material financing or acquisition transactions, and provisions for onerous leases. Other non-trading items include shareholder fees and unrealised gains and losses on structural intragroup foreign exchange balances and derivative instruments.

### 1.10 GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 1.10 GOODWILL (CONT'D)

Goodwill is allocated to cash-generating units ('CGU's') for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment. Goodwill is recorded in the functional currency of the CGU to which it relates.

### 1.11 INTANGIBLES

**Intangible assets acquired separately**

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

**Internally-generated intangible assets**
**Software and course development costs**

Only third party expenditure on course and software development is capitalised. Internal costs, including staff costs, are expensed as incurred. An internally-generated intangible asset arising from software development is 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 or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.
Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Software development is amortised straight-line over 3 years and course development over 3 – 5 years dependant on the individual asset.

**Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives have been determined for the intangible assets acquired:

| | |
|---|---|
| Agent Network | 10 years |
| Customer Lists | 3 years |
| Brands | 10 years |
| Software | 3-5 years |
| Centre Contracts* | Life of contract |

* Centre contract purchased as part of the ANU acquisition

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 1.12 TANGIBLE FIXED ASSETS

Fixed assets are shown at historical cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Repairs and maintenance are expensed as incurred, while major renovations and improvements are capitalised as fixed assets and depreciated over their estimated useful lives.

Depreciation is provided at rates calculated to write off the cost or valuation of each asset, on a straight-line basis over its expected useful life to their residual values, as follows:

| | | |
|---|---|---|
| Freehold buildings | - | 50 years |
| Equipment | - | 2-10 years |
| Leasehold improvements | - | Term of lease |
| Asset Retirement policy | - | Term of lease |

Freehold land is not depreciated.

### 1.13 IMPAIRMENT OF NON-CURRENT ASSETS

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount, which is considered to be the higher of its value in use and fair value less costs to sell. In order to assess impairment, assets are grouped into the lowest levels for which there are separately identifiable cash flows (cash-generating units). Cash flows used to assess impairment are discounted using appropriate rates taking into account the cost of capital and any risks relevant to those assets.

### 1.14 INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### 1.15 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

### 1.16 FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

### 1.17 TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the statement of comprehensive income.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 1.18 TRADE PAYABLES

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

### 1.19 PROVISIONS

Provisions are measured at the value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If material, provisions are determined by discounting the expected future cash flows of the Group at rates that reflect current market assessments of the time value of money.

### 1.20 TAXATION INCLUDING DEFERRED TAX

Corporation tax, where payable, is provided on taxable profits at the current rate.

Deferred tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Deferred tax assets and liabilities have not been discounted.

### 1.21 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits at all banks, other liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts or loans where there is no right of set off are shown within borrowings in current or non-current liabilities on the balance sheet as appropriate.

### 1.22 EMPLOYEE BENEFITS

During the year the Group contributed to defined contribution pension schemes under which it pays contributions based upon a percentage of the members' basic salary. The schemes are administered by trustees either appointed by the Group or elected by the members.

Contributions to defined contribution pension schemes are charged to the statement of comprehensive income according to the year in which they are payable.

Employee benefit provisions relate predominantly to annual leave and long service leave entitlements payable to employees in certain jurisdictions.

The fair value of equity-settled share based payments is recognised as an employee benefit with a corresponding increase in equity. The fair value is measured at grant date and charged to the Statement of comprehensive income over the expected vesting period.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 1.22 EMPLOYEE BENEFITS (CONT'D)

Equity settled schemes have been created that enable certain senior employees to acquire ordinary shares at market value. Market value is determined based on an analysis of profit multiples in the Group's industry sector. These shares are expected to vest on a qualifying transaction, including a stock exchange listing.

### 1.23 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares issued are shown as share capital at nominal value. The premium received on the issuance of shares in excess of the nominal value is shown as share premium within shareholders' equity.

### 1.24 BORROWING COSTS

Borrowings are recognised initially at fair value, net of direct issue costs. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of issue costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as issue costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

### 1.25 FOREIGN CURRENCY

a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Great British Pounds (GBP), which is the Company's functional and the Group's presentation currency.
b) Transactions and balances
Transactions denominated in foreign currencies are recorded in GBP at the exchange rates ruling at the date of the transaction. Foreign exchange gains and losses resulting from such transactions are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the statement of comprehensive income.

Foreign exchange gains/losses relating to foreign currency loans and other foreign exchange adjustments are included within finance income/expenses.

On consolidation incomes and cash flows of foreign subsidiaries are translated into GBP using average rates that existed during the accounting period. The balance sheets of foreign subsidiaries are translated into GBP at the rates of exchange ruling at the balance sheet date. Gains or losses arising on the re-translation of opening and closing net assets are recognised in the statement of changes in equity.

### 1.26 FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, market interest rates, credit risk and its liquidity position. The Group has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Group which is outlined in the Directors' Report.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 1.26 FINANCIAL RISK MANAGEMENT (CONT'D)

The Group has in the past entered into interest rate swaps to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised immediately in the Statement of Comprehensive Income.

The fair value of derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the derivatives is more than 12 months and as a current asset or a current liability if the remaining maturity of the derivatives is less than 12 months. The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to be approximate to their book values.

The fair values of the derivative financial instruments are disclosed in note 16.

### 1.27 KEY AREAS OF JUDGEMENT

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are discussed in the relevant accounting policies under the following headings:

a. Goodwill and Intangibles

Annually the Group tests whether intangible assets and goodwill have suffered any impairment, in accordance with the accounting policy stated in notes 1.10 and 1.11.

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require management to make an estimate of the expected future cash flows from cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of key assumptions are disclosed in note 7 and note 8.

b. Income taxes

The Group is subject to income taxes in numerous jurisdictions. A level of judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

c. Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

d. Provisions

Judgement and estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by Study Group. Provisions are shown under "Provisions" in Note 14. Contingent liabilities related to pending litigation or outstanding claims subject to negotiation as well as other contingent liabilities require the Group to exercise judgement when recognising in the financial statements. Contingent liabilities are set out in Note 22.

## 2. SEGMENTAL ANALYSES

The primary reportable segments of the Group have been identified as, Higher Education UK & Europe, Higher Education ANZ, Higher Education NA, Embassy and Career Education.

The chief operating decision makers does not monitor assets and liabilities by operating segment.

**For the year ended December 2013**

| Business Segments | Higher Education UK&EU | Higher Education ANZ | Higher Education NA | **Total Higher Education** | Career Education | Embassy | Corporate Costs | **Total** |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | **£'000** | £'000 | £'000 | £'000 | **£'000** |
| **External revenue** | 109,542 | 46,844 | 5,250 | **161,636** | 30,437 | 62,178 | - | **254;251** |
| **Segment Result (Adjusted EBITDA) *** | 31,148 | 4,816 | (1,943) | **34,021** | 2,500 | 2,954 | (5,206) | **34,269** |

**For the year ended December 2012 unaudited****

| Business Segments | Higher Education UK&EU | Higher Education ANZ | Higher Education NA | **Total Higher Education** | Career Education | Embassy | Corporate Costs | **Total** |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | **£'000** | £'000 | £'000 | £'000 | **£'000** |
| **External revenue** | 100,754 | 44,404 | 4,398 | **149,556** | 30,899 | 60,743 | - | **241,198** |
| **Segment Result (Adjusted EBITDA) *** | 27,619 | 2,487 | (1,074) | **29,032** | 3,529 | 2,061 | (5,171) | **29,451** |

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment and exceptional and other items.
**The comparative period has been restated, see note 6. This has the effect of reducing the segment result of HE ANZ by £0.8 million, Career Education by £0.4 million, Embassy by £1.4 million, and increasing corporate costs by £0.3 million in 2012.

The above adjusted EBITDA has been reconciled to the loss before tax on the face of the consolidated statement of Group comprehensive income on page 19.

**Geographical Segments – external revenue**

| **2013** | £'000 |
|---|---|
| United Kingdom & Europe | 139,794 |
| Australia & New Zealand | 87,610 |
| North America | 26,847 |
| **Total** | **254,251** |
| **2012** | |
| United Kingdom & Europe | 125,821 |
| Australia & New Zealand | 87,029 |
| North America | 28,348 |
| **Total** | **241,198** |

During the year there was no trading between the segments and corporate costs have been allocated on a reasonable basis for statutory purposes.

## 3. FINANCE (COSTS)/INCOME

| | 2013 £'000 | Unaudited 2012 Restated* £'000 |
|---|---|---|
| **Finance costs:** | | |
| Interest - bank borrowings | **(6,154)** | (9,335) |
| Interest - 8.875% Senior Secured Loan Notes | **(5,184)** | - |
| Interest – Inter-company** | **(176)** | - |
| Amortisation of debt issue costs | **(1,742)** | (2,102) |
| Write off of previous debt issue costs (note 6) | **(4,434)** | - |
| Re-finance fees (note 6) | **(5,902)** | - |
| Other finance costs | **(1,588)** | (2,787) |
| Foreign exchange gains / (losses) (note 6) | **(21,727)** | (2,342) |
| | **(46,907)** | (16,566) |
| **Finance income:** | | |
| Bank interest | **210** | 251 |
| Gain on fair value of interest rate swaps | **752** | 362 |
| | **962** | 613 |
| **Net finance costs** | **(45,945)** | (15,953) |

*The consolidated statement of comprehensive income for the comparative period has been re-presented so as to record unrealised foreign exchange gains and losses related to funding loans within finance costs. Previously they had been included within administrative expenses. The impact on administrative expenses and therefore operating profit for the year ended 31 December 2012 is a reduction in administrative expenses of £2.3 million.

** Intercompany Interest is payable to EDU UK Topco Ltd

## 4. OPERATING (PROFIT)/LOSS

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| The following items have been included in arriving at the operating loss before taxation: | | |
| Cost of sales | **129,479** | 121,378 |
| Administrative costs | **90,189** | 83,790 |

The following are included within cost of sales, administrative costs and depreciation and amortisation:

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Depreciation of property, plant and equipment: | **5,485** | 6,228 |
| Gain on disposal of assets | **-** | (8) |
| Operating lease rentals payable | **27,039** | 23,238 |
| Amortisation of intangible assets | **13,540** | 12,831 |
| Impairment of Goodwill | **18,000** | - |
| Impairment of trade receivables | **732** | 1,622 |
| Acquisition related costs | **109** | 95 |

**Services provided by the Group's auditor and network firms**

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors and network firms as detailed below:

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Fees payable to the Company's auditors for the audit of parent company and consolidated financial statements | | |
| - EDU UK Intermediate consolidated accounts | **90** | 90 |
| - Subsidiary accounts | **272** | 283 |
| Fees payable to the Company's auditors and its associates for other services: | | |
| - Services relating to acquisitions | **8** | - |
| - Services relating to taxation compliance | **172** | 141 |
| - Services relating to taxation advisory services | **228** | 66 |
| - Other assurance services* | **1,103** | 314 |
| | **1,873** | 894 |

*Other assurance services includes £839k in connection with the issuance of 8.875% Senior Secured Loan Notes

## 5. TAXATION

**Analysis of tax benefit in the year**

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Current tax | | |
| - UK current tax on loss for the year | (1,012) | (4,765) |
| - Adjustments in respect of prior periods | (803) | - |
| - Overseas current tax on losses for the year | (1,235) | (328) |
| - Overseas adjustments in respect of prior periods | 995 | - |
| | (2,055) | (5,093) |
| Deferred Tax (Note 17) | | |
| - UK origination and reversal of temporary differences | 990 | 1,526 |
| - Changes in tax rate | 2,086 | 77 |
| - Overseas origination and reversal of temporary differences | (4,239) | 1,074 |
| - Overseas current year tax losses carried forward | - | 6,210 |
| - Adjustments in respect of prior periods | (3,771) | - |
| | (4,934) | 8,887 |
| Total tax (charge)/benefit to the Statement of comprehensive income | (6,989) | 3,794 |

The tax for the year differs to the standard rate of corporation tax in the UK 23.25% (2012: 24.5%). Any differences are explained below:

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Loss before taxation | 61,784 | 7,949 |
| Loss on ordinary activities multiplied by rate of corporation tax in UK of 23.25% (2012: 24.5%) | 14,313 | 1,947 |
| Effects of: | | |
| Expenses not deductible for tax purposes | (5,574) | 329 |
| Income not taxable | 103 | 258 |
| Unrecognised tax losses | (15,394) | - |
| Difference on overseas rates of tax | 3,142 | 1,260 |
| Adjustments in respect of prior periods – corporation tax | 192 | - |
| Adjustments in respect of prior periods – deferred tax | (3,771) | - |
| Total taxation (charge) / benefit | (6,989) | 3,794 |

The March 2013 Budget Statement included proposals for reductions in the main rate of corporation tax in the UK by 1% to 22% on 1 April 2014 and a further reductions of 2% on 1 April 2015.

## 6. EXCEPTIONAL AND OTHER ITEMS

| | Group Exceptional Items 2013 £ '000 | Group Other items 2013 £ '000 | Group Total 2013 £ '000 | Unaudited Group Exceptional Items Restated* 2012 £ '000 | Unaudited Group Other items Restated*/** 2012 £ '000 | Unaudited Group Total Restated* 2012 £ '000 |
|---|---|---|---|---|---|---|
| **Exceptional and other items included with operating profit / (loss):** | | | | | | |
| Impairment of Goodwill | 18,000 | - | **18,000** | - | - | - |
| Restructuring costs | 5,806 | - | **5,806** | 3,232 | - | 3,232 |
| Transaction costs | 112 | - | **112** | 363 | - | 363 |
| Litigation | 568 | - | **568** | - | - | - |
| Write-off of centre set-up costs following change in accounting policy | - | 1,005 | **1,005** | - | - | - |
| Property Provision | 3,425 | - | **3,425** | (2,914) | - | (2,914) |
| Shareholder & Management fees | - | 1,916 | **1,916** | - | 1,662 | 1,662 |
| Other | - | 269 | **269** | - | 44 | 44 |
| | **27,911** | **3,190** | **31,101** | 681 | 1,706 | 2,387 |
| **Exceptional and other items included within finance costs:** | | | | | | |
| Foreign exchange losses | - | 21,727 | **21,727** | - | 2,342 | 2,342 |
| Write-off of loan arrangement costs following re-finance | 4,434 | - | **4,434** | - | - | - |
| Fees associated with the re-finance | 5,902 | - | **5,902** | - | - | - |
| | **10,336** | **21,727** | **32,063** | - | 2,342 | 2,342 |
| **Total exceptional and other costs** | **38,247** | **24,917** | **63,164** | 681 | 4,048 | 4,729 |

The related tax impact of exceptional and other items of £3.9 million (2012: £nil) has also been included in the exceptional and other items column in the consolidated statement of comprehensive income.

* During 2013 the Directors have refined and clarified the group's accounting policy in respect of identification of exceptional items (note 1.9). Exceptional items are now defined to include onerous lease provisions. Consequently in accordance with the requirements of IAS 1, the classification of such items within the Group statement of comprehensive income for the comparative period has changed in order to present results on a consistent basis.

** Other items are not necessarily non-recurring in nature, but the Directors believe that it is helpful to show these amounts separately as they are not directly linked to the trading operations of the business.

## 6. EXCEPTIONAL AND OTHER ITEMS (CONT'D)

An impairment charge of £18.0 million was recognised at 30 June 2013 as a result of the softening in Embassy enrolments and the anticipated underperformance against Embassy budgets (see note 7). No further impairment has been recognised in the six months to 31 December 2013. No impairment charge was incurred in the period to 31 December 2012.

For the year ended 31 December 2013, the Group incurred exceptional restructuring costs of £5.8 million (2012: £3.2 million), which includes £2.0 million (2012: £3.2 million) in respect of costs relating to the implementation of a cost containment project, which includes redundancy, consulting and related fees; £3.8 million (2012: £nil) in respect of the relocation of the Group Head Office from Australia to the United Kingdom and further restructuring costs at a number of divisions following the appointment of new senior management.

The group incurred one off settlement costs of £0.6 million (2012: £nil) in relation to a litigation claim raised in the United States.

During the year, the Group changed its accounting policy with respect to centre setup costs. Previously they were deferred and amortised over the life of the contract. In common with industry practice, they are now expensed as incurred. Costs prior to 31 December 2012 of £1.0 million have been expensed during the year and included within other items as they do not relate to current year trading.

Following a review of the property portfolio, the Group recorded property provisions of £3.4 million (2012: £2.9 million credit restated balance see note 2), principally in respect of onerous leases.

The Group also incurred £1.5 million (2012: £1.0 million) management fees and expenses charged by Providence Equity and Petersen Investments. In addition, prior to the relocation of the Group Head Office to London, certain costs incurred in Australia were recharged to the UK and irrecoverable VAT of £0.4 million (2012: £0.7 million) was paid on these recharges. These are included within other items.

Exceptional finance expenses for the period December 2013 of £10.3 million (2012: £nil) were incurred, comprising £4.4 million (2012: £nil) of debt issue costs relating to the previous financing structure and £5.9 million (2012: £nil) of advisors fees in connection with the issuance of the secured loan notes in September 2013.

There were unrealised foreign exchange losses on intra group loans of £21.7 million (2012: £2.3 million) for the year due to movements in the Australian dollar and the United States dollar. These are included within other items.

## 7. GOODWILL

The Group's operational divisions are Higher Education, which splits into the geographical regions UK and Europe, ANZ, and North America; and Career Education and Embassy. Following a change in management during 2013 there was a re-organisation of the Australasian division; this is in alignment with segmental reporting for the Group. In 2012 Careers was included within the ANZ Higher Education CGU but has been split out from Higher Education for comparability. As a result of this we reviewed the classification of goodwill allocated to each segment and made a number of adjustments below. The following is a summary of the goodwill allocation for each operating segment:

**2013**

| | | 1 January 2013 | Reclassification | Acquisitions | Impairment | Foreign Exchange Adjustments | 31 December 2013 |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Higher Education | | | | | | | |
| | UK & Europe | 231,301 | (12,608) | - | - | - | 218,693 |
| | ANZ | 65,179 | 10,652 | 474 | - | (17,971) | 58,334 |
| | North America | - | - | - | - | - | - |
| Career Education | | 54,121 | 7,031 | - | - | (13,755) | 47,397 |
| Embassy | | 59,004 | (5,075) | - | (18,000) | (3,806) | 32,123 |
| | | 409,605 | - | 474 | (18,000) | (35,532) | 356,547 |

**2012 unaudited**

| | | 1 January 2012 | Foreign Exchange Adjustments | 31 December 2012 |
|---|---|---|---|---|
| | | £'000 | £'000 | £'000 |
| Higher Education | | | | |
| | UK & Europe | 231,301 | - | 231,301 |
| | ANZ | 67,146 | (1,967) | 65,179 |
| | North America | - | - | - |
| Career Education | | 55,676 | (1,555) | 54,121 |
| Embassy | | 61,447 | (2,443) | 59,004 |
| | | 415,570 | (5,965) | 409,605 |

An annual impairment review is performed each year in December, and any impairment triggers are reviewed throughout the year. As a result of the softening in Embassy enrolments, management reforecast the Embassy results for 2013 when preparing the interim condensed consolidated financial statements at 30 June 2013 and an impairment of £18m was booked for that cash generating unit (CGU). Embassy is the CGU which offers English language courses to students from overseas and operates in the US, Canada, UK, Australia and New Zealand and is complimentary to the other CGUs within the business. The Embassy CGU has performed slightly ahead of forecast for the 6 months to 31 December 2013 and consequently there are no further impairment indicators.

7. GOODWILL (CONT'D)

**Key assumptions used in the value in use calculations**

| | 2013 | 2012 |
|---|---|---|
| | All CGUs | All CGUs |
| Pre-tax discount rate | 12% | 11.8% |
| Long term growth rate | 3.0% | 3.0% |

The projections considered as at 31 December 2013 were based on the latest Board approved forecast for 2014 with the following years being based on the three year strategic plan growth rates by cash-generating unit.

**Sensitivity to changes in assumptions**

The table below shows the excess value in use over the carrying value for each CGU in the base case, if there were a 1% increase in the pre-tax discount rate or if the EBITDA used in the value-in-use calculation is 10% lower than management's estimates. There is no headroom in the ANZ divisions under the EBITDA sensitivity. However given recent trading performance and positive results in 2014 against budget, in addition to New Student Enrolments being up 17% year on year the directors' are satisfied that the base case forecasts are sufficiently prudent and no further impairment is required. On this basis, a 10% under performance against forecasts and budgeted EBITDA as per the below sensitivity is not considered to be reasonably likely.

| | Excess of value in use over carrying value on base case | Excess of value in use over carrying value on 1% increase in pre-tax discount rate | Excess of value in use over carrying value on 10% underperformance against forecast and budgeted EBITDA |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Higher Education UK & Europe | 184,118 | 144,466 | 34814 |
| Higher Education ANZ | 7,028 | 2,114 | (810) |
| Higher Education North America | - | - | - |
| Career Education | 21,622 | 15,262 | 11,930 |
| Embassy | 20,530 | 14,661 | 13,423 |

## 8. INTANGIBLE ASSETS

**2013**

| | Software | Course Development | Agent Network and Customer Lists | Brands | Centre Contract | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| COST | | | | | | |
| At 1 January 2013 | 12,997 | - | 72,284 | 5,782 | - | 91,063 |
| Additions | 3,285 | 418 | - | - | - | 3,703 |
| Acquisition | - | - | - | - | 1,528 | 1,528 |
| Disposals | (1) | - | - | - | - | (1) |
| Transfers | (167) | - | - | - | - | (167) |
| Foreign currency translation | (2,099) | (36) | (4,195) | (173) | - | (6,503) |
| At 31 December 2013 | 14,015 | 382 | 68,089 | 5,609 | 1,528 | 89,623 |
| ACCUMULATED AMORTISATION | | | | | | |
| At 1 January 2013 | 6,256 | - | 25,481 | 1,450 | - | 33,187 |
| Charge for the year | 2,768 | 37 | 10,085 | 650 | - | 13,540 |
| Disposals | (1) | - | - | - | - | (1) |
| Foreign currency translation | (1,163) | (6) | (1,990) | (8) | - | (3,167) |
| At 31 December 2013 | 7,860 | 31 | 33,576 | 2,092 | - | 43,559 |
| **Net book value at 31 December 2013** | 6,155 | 351 | 34,513 | 3,517 | 1,528 | 46,064 |

| **2012 unaudited** | Software £'000 | Agent Network and Customer Lists £'000 | Brands £'000 | Total £'000 |
|---|---|---|---|---|
| INTANGIBLE ASSETS | | | | |
| COST | | | | |
| At 1 January 2012 | 7,446 | 73,342 | 5,874 | 86,662 |
| Additions | 5,377 | - | - | 5,377 |
| Foreign currency translation | 174 | (1,058) | (92) | (976) |
| At 31 December 2012 | 12,997 | 72,284 | 5,782 | 91,063 |
| ACCUMULATED AMORTISATION | | | | |
| At 1 January 2012 | 4,088 | 15,547 | 867 | 20,502 |
| Charge for the year | 2,046 | 10,201 | 584 | 12,831 |
| Foreign currency translation | 122 | (267) | (1) | (146) |
| At 31 December 2012 | 6,256 | 25,481 | 1,450 | 33,187 |
| **Net book value at 31 December 2012** | 6,741 | 46,803 | 4,332 | 57,876 |

Amortisation is included within 'Depreciation and amortisation' in the Statement of comprehensive income.

## 9. TANGIBLE FIXED ASSETS

| 2013 | Freehold land and buildings | Leasehold improvements | Equipment | Asset retirement Obligation | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| COST | | | | | |
| At 1 January 2013 | 5,164 | 18,022 | 33,837 | - | 57,023 |
| Additions at cost | - | 420 | 3,961 | 1,837 | 6,218 |
| Acquisition | - | 646 | 77 | - | 723 |
| Transfers | - | (110) | 457 | - | 347 |
| Disposals | - | (255) | (3,154) | - | (3,409) |
| Foreign currency translation | - | (1,448) | (2,549) | - | (3,997) |
| At 31 December 2013 | 5,164 | 17,275 | 32,629 | 1,837 | 56,905 |
| ACCUMULATED DEPRECIATION | | | | | |
| At 1 January 2013 | 246 | 9,125 | 26,789 | - | 36,160 |
| Charge for the year | 98 | 1,755 | 3,632 | - | 5,485 |
| Transfers | - | - | 181 | - | 181 |
| Disposals | - | (249) | (3,070) | - | (3,319) |
| Foreign currency translation | - | (1,075) | (2,271) | - | (3,346) |
| At 31 December 2013 | 344 | 9,556 | 25,261 | - | 35,161 |
| **Net book amount at 31 December 2013** | 4,820 | 7,719 | 7,368 | 1,837 | 21,744 |

| 2012 unaudited | Freehold land and buildings £'000 | Leasehold improvements £'000 | Equipment £'000 | Total £'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1 January 2012 | 5,164 | 17,388 | 38,574 | 61,126 |
| Additions at cost | - | 1,580 | 2,952 | 4,532 |
| Disposals | - | (591) | (7,059) | (7,650) |
| Foreign currency translation | - | (355) | (630) | (985) |
| At 31 December 2012 | 5,164 | 18,022 | 33,837 | 57,023 |
| ACCUMULATED DEPRECIATION | | | | |
| At 1 January 2012 | 147 | 7,576 | 29,911 | 37,634 |
| Charge for the year | 99 | 1,775 | 4,354 | 6,228 |
| Disposals | - | (55) | (6,936) | (6,991) |
| Foreign currency translation | - | (171) | (540) | (711) |
| At 31 December 2012 | 246 | 9,125 | 26,789 | 36,160 |
| **Net book amount at 31 December** | 4,918 | 8,897 | 7,048 | 20,863 |

Freehold land is not depreciated

## 10. INVESTMENTS

The movements in the net book value of investments are as follows:

| | Investments in associates 2013 £'000 | Unaudited Investments in associates 2012 £'000 |
|---|---|---|
| Balance at the beginning of the year | **123** | 127 |
| Share of associates' profit/(loss) | **18** | (9) |
| Foreign currency translation | **(21)** | 5 |
| At 31 December | **120** | 123 |

PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings of the Company, which are included in the consolidated financial statements, are set out below.

| **Name of Entity** | **Country of Incorporation** | **Ownership Interest % 2013** | **Nature** |
|---|---|---|---|
| ***Controlled Entities:*** | | | |
| EDU UK Bondco Plc | United Kingdom | 100 | Holding |
| EDU UK Bidco Ltd | United Kingdom | 100 | Holding |
| Study Group Holdings UK Ltd[(iii)] | United Kingdom | 100 | Holding |
| Study Group International (2) Ltd[(iii)] | United Kingdom | 100 | Dormant |
| Study Group UK Ltd | United Kingdom | 100 | Holding |
| Bellerbys Educational Services Ltd | United Kingdom | 100 | Trading |
| Embassy Educational Services (UK) Ltd | United Kingdom | 100 | Trading |
| Study Group Properties Ltd[(iii)] | United Kingdom | 100 | Trading |
| Study Group Ltd[(iii)] | United Kingdom | 100 | Trading |
| Study Group Distance Learning Ltd [(ii) (iii)] | United Kingdom | 100 | Trading |
| Bellerbys College Ireland Ltd. | Ireland | 100 | Trading |
| Study Group (Netherlands) B.V. | Netherlands | 100 | Trading |
| EDU Holdings SPV Pty Ltd | Australia | 100 | Holding |
| EDU Investments SPV Pty Ltd | Australia | 100 | Holding |
| Study Group Pty Ltd | Australia | 100 | Holding |
| Study Group (Finance) Pty Ltd | Australia | 100 | Holding |
| Study Group Australia Pty Ltd | Australia | 100 | Trading |
| Taylors Institute of Advanced Studies Ltd [(i)] | Australia | - | Trading |
| ACPE Ltd | Australia | 100 | Trading |
| Australian Institute of Applied Sciences Pty Ltd | Australia | 100 | Trading |
| Study Group NZ Ltd | New Zealand | 100 | Trading |
| EDU US Holdco Inc. | USA | 100 | Holding |
| Study Group USA Inc. | USA | 100 | Trading |
| FSL Scholarships Foundation [(i)] | USA | - | Trading |
| Study Group USA Higher Education LLC | USA | 100 | Trading |
| Center for English Studies LLC | USA | 100 | Trading |
| Embassy Centre for English Studies Inc. | Canada | 100 | Trading |
| Study Group Canada Ltd | Canada | 100 | Trading |
| Study Group Canada Higher Education Inc. | Canada | 100 | Trading |
| Beijing Study Group Information Consulting Co Ltd | China | 100 | Trading |
| Study Group (Beijing) Ltd | China | 100 | Dormant |
| Study Group (Guangzhou) Pty Ltd | China | 100 | Trading |
| Study Group Global Pte Ltd | Singapore | 100 | Trading |
| ***Associate Entities:*** | | | Trading |
| University of Sydney Foundation Program Pty Ltd | Australia | 50 | Trading |

## 10. INVESTMENTS (CONT'D)

(i) This entity is classified as a controlled entity as the Group has the capacity to control both the operating and financial decisions, and the capacity to dominate and control the composition of the Board of Directors.

(ii) Formerly MBA Authors Ltd

(iii) Study Group Holdings UK Ltd (registered number: 05888001); Study Group Properties Ltd (registered number: 03124784); Study Group Ltd (registered number: 04275123) and Study Group Distance Learning Ltd (registered number: 07145464), wholly owned subsidiaries of the company, are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A for non-dormant subsidiaries. All outstanding liabilities as at 31 December 2013 of Study Group Holdings UK Ltd, Study Group Properties Ltd, Study Group Ltd and Study Group Distance Learning Ltd have been guaranteed by the company and no liability is expected to arise under the guarantee.

## 11. TRADE AND OTHER RECEIVABLES

| | 2013<br>£'000 | Unaudited<br>2012<br>£'000 |
|---|---|---|
| CURRENT: | | |
| Trade receivables (i) | 77,449 | 76,867 |
| Less: provision for impairment of receivables | (3,227) | (3,301) |
| Trade receivables – net | 74,222 | 73,566 |
| Other receivables | 1,547 | 4,149 |
| Prepayments | 13,147 | 11,865 |
| | 88,916 | 89,580 |
| NON CURRENT: | | |
| Trade receivables (i) | 4,726 | 5,579 |

(i) Tuition fees in some jurisdictions are invoiced in full prior to course commencement; however they are not payable until commencement of each semester resulting in non-current receivables. No interest is charged on trade receivables.

Trade receivables can be analysed as follows:

Ageing of trade receivables net of provision

| | 2013<br>£'000 | Unaudited<br>2012<br>£'000 |
|---|---|---|
| Not past due | 71,277 | 66,947 |
| 30 - 60 days | 1,458 | 809 |
| 60 - 90 days | 2,453 | 3,378 |
| 90 - 120 days | 727 | 1,571 |
| > 120 days | 3,033 | 6,440 |
| | 78,948 | 79,145 |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The concentration of credit risk is Ltd due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

## 11. TRADE AND OTHER RECEIVABLES (CONT'D)

| Ageing of impaired receivables | **2013 £ '000** | Unaudited 2012 £ '000 |
|---|---|---|
| 1 - 120 days | **(80)** | (6) |
| > 120 days | **(3,147)** | (3,295) |
| | **(3,227)** | (3,301) |

Movements on the Group provision for impairment of trade receivables are as follows:

| | **2013 £'000** | Unaudited 2012 £'000 |
|---|---|---|
| **Movement in the allowance for doubtful debts** | | |
| Balance at the beginning of the year | **3,301** | 2,732 |
| Provision recognised on receivables | **972** | 1,694 |
| Amounts written-off as uncollectible | **(582)** | (987) |
| Impairment losses reversed | **(240)** | (72) |
| Net difference due to foreign exchange | **(224)** | (66) |
| **At 31 December** | **3,227** | 3,301 |

The charge relating to the increase in provision has been included in 'administrative expenses' in the statement of comprehensive income.

The carrying amounts of the Group trade and other receivables are denominated in the following currencies:

| | **2013 £'000** | Unaudited 2012 £'000 |
|---|---|---|
| Sterling | **57,743** | 58,714 |
| Australian Dollar | **14,339** | 9,807 |
| US dollar | **7,536** | 9,848 |
| Canadian Dollar | **1,287** | 3,394 |
| Euro | **484** | 683 |
| New Zealand Dollar | **786** | - |
| | **82,175** | 82,446 |

Trade receivables represent amounts due from students or in some cases their agents.

## 12. CURRENT TAX ASSETS

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| **Current tax assets** | | |
| UK corporation tax receivable | 1,723 | - |
| **At 31 December** | 1,723 | - |

## 13. TRADE AND OTHER PAYABLES

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| CURRENT: | | |
| Trade payables | 19,330 | 18,014 |
| Other payables and accruals | 31,067 | 35,564 |
| Interest accrued – senior secured loan notes | 5,184 | - |
| | 55,581 | 53,578 |

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| NON CURRENT: | | |
| Other payables and accruals | 6,689 | 5,727 |
| | 6,689 | 5,727 |

## 14. PROVISIONS

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| CURRENT: | | |
| Employee benefits | 3,820 | 4,498 |
| Property provisions | 2,652 | 1,295 |
| Restructuring | 365 | - |
| | 6,837 | 5,793 |

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| NON CURRENT: | | |
| Employee benefits | 842 | 967 |
| Property provisions | 3,982 | 1,526 |
| | 4,824 | 2,493 |

## 14. PROVISIONS (CONT'D)

| Movement on Provisions: | Employee Benefit | | Property | | Restructuring | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | Unaudited 2012 | 2013 | Unaudited 2012 | 2013 | Unaudited 2012 | 2013 | Unaudited 2012 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at the start of the year | **5,465** | 5,082 | **2,821** | 7,116 | **-** | - | **8,286** | 12,198 |
| Additional provision recognised | **327** | 2,469 | **5,388** | - | **5,806** | - | **11,521** | 2,469 |
| Provisions utilised | **(256)** | (1,959) | **(985)** | (1,211) | **(5,441)** | - | **(6,682)** | (3,170) |
| Provisions released | **-** | - | **-** | (2,914) | **-** | - | **-** | (2,914) |
| Unwinding of discount | **-** | - | **5** | 8 | **-** | - | **5** | 8 |
| Foreign exchange retranslation | **(874)** | (127) | **(595)** | (178) | **-** | - | **(1,469)** | (305) |
| **At 31 December** | **4,662** | 5,465 | **6,634** | 2,821 | **365** | - | **11,661** | 8,286 |

Employee benefit provisions relate predominantly to annual leave and Australian long service leave entitlements and will be utilised upon employees taking their long service leave.

Property provisions relate to onerous leases on vacant properties around the group and dilapidation provisions on leased properties. Property provisions will unwind over the length of the respective leases, which for the largest amounts expire within the next three years.

The restructuring provision represents costs that remain to be paid relating to the relocation of the Head Office from Sydney to London.

## 15. BORROWINGS

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| CURRENT BORROWINGS | | |
| Secured borrowings at amortised cost | | |
| Bank loan | **3,068** | 23,763 |
| NON CURRENT BORROWINGS | | |
| Secured borrowings at amortised cost | | |
| Bank loan | - | 104,973 |
| 8.875% Senior Secured Loan Notes | **205,000** | - |
| Unamortised debt issue costs | **(4,858)** | (5,941) |
| | **200,142** | 99,032 |
| **Total borrowings** | | |
| Amount due for settlement within 12 months | **3,068** | 23,763 |
| Amount due for settlement after 12 months | **200,142** | 99,032 |
| | **203,210** | 122,795 |

| **Movement in Borrowings** | **Bank loans £'000** | **8.875% Senior Secured Loan Notes £'000** | **Total £'000** |
|---|---|---|---|
| At 1 January 2013 | 122,795 | - | 122,795 |
| Net movement in revolving credit facility NAB | (8,073) | - | (8,073) |
| Net movement in revolving credit facility Barclay's | 3,068 | - | 3,068 |
| Repayments of borrowings | (107,275) | - | (107,275) |
| Issue of Senior Secured Loan Notes | - | 205,000 | 205,000 |
| Issue costs on new debt | (1,516) | (3,342) | (4,858) |
| Write-off of previous debt issue costs | 5,941 | - | 5,941 |
| Foreign currency translation | (13,388) | - | (13,388) |
| **At 31 December 2013** | **1,552** | **201,658** | **203,210** |

On 18 September 2013, through its subsidiary EDU UK BondCo PLC, the Company issued principal amounts of £205 million in 8.875% senior secured notes due on 15 September 2018 ('the bond issue'). The notes are listed on the Luxembourg Stock Exchange and were admitted to trading on 18 September 2013. Study Group used the proceeds from the bond issue to repay existing bank debt of £119.8 million, which includes the repayment of the revolver facility and to repay £74.5 million of Eurobonds held by shareholders. The remaining proceeds were used to settle issuance costs. In connection with the issue, Study Group obtained a £30.0 million revolving credit facility ('RCF') from a consortium of banks of which £3.1 million had been drawn down as at 31 December 2013.

## 15. BORROWINGS (CONT'D)

Direct issue costs associated with the refinance of £5.2 million have been capitalised and offset against the liability. Indirect issue costs of £5.9 million, mainly advisor fees associated with the transaction have been expensed, (note 6). In addition, loan arrangement fees relating to the previous financing structure have been written-off.

Under the previous financing structure, the external bank loans were secured against the assets of the Group. The Group complied with all loan covenants during the period. The borrowings consisted of:

a) An interest only facility whereby the principal is repayable at maturity, and

b) A principal and interest facility whereby principal repayments are made over the term of the facility, and

c) A short term multi-currency revolving credit facility

The interest on 75% of the initial loan was fixed through the use of interest rate swaps resulting in an effective weighted average interest rate of 7.06%. The interest rate swap expired on 8 July 2013.

**Analysis of borrowing by currency excluding unamortised debt issue costs**

| | Australian £'000 | Sterling £'000 | US £'000 |
|---|---|---|---|
| **Group** | | | |
| Bank Loan | 3,068 | - | - |
| 8.875% Senior Secured Loan | - | 205,000 | - |
| **At 31 December 2013** | **3,068** | **205,000** | **-** |

**Unaudited**

| | Australian £'000 | Sterling £'000 | US £'000 |
|---|---|---|---|
| **Group** | | | |
| Bank Loan | 61,794 | 56,526 | 10,416 |
| **At 31 December 2012** | **61,794** | **56,526** | **10,416** |

**Undrawn borrowing facilities**

At 31 December 2013, the Group had available £26.9 million (2012: £33.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. Debt issue costs are amortised straight-line over the life of the loan facility, being 5 years.

## 16. FINANCIAL INSTRUMENTS

The Group's policies and strategies in relation to risk and financial instruments are explained in the Directors' Report. Accounting policies used to account for financial instruments are detailed in note 1.

| Group | Assets 2013 £'000 | Unaudited Assets 2012 £'000 | Liabilities 2013 £'000 | Unaudited Liabilities 2012 £'000 |
|---|---|---|---|---|
| Carrying values of derivative financial instruments: | | | | |
| Interest rate swap - cash flow hedge | - | - | - | (779) |
| | - | - | - | (779) |

At 31 December 2013, the Group had no derivative financial instruments.

At 31 December 2012, the interest rate swap fixed the interest rate on 75% of the initial bank loans disclosed in note 15 to 6.69%. The gain recognised on the interest rate swap was continuously re-valued with any gains or losses taken to the statement of comprehensive income until the maturity of the swap. The remainder of the bank loan disclosed in note 15 incurred interest based on a market rate, which was 5.50%.

In accordance with IAS 39, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No embedded derivatives have been identified.

**Fair values of non-derivative financial assets and liabilities**

At 31 December 2013 there is no difference between the carrying amount and fair value of each of the following classes of financial assets and liabilities, principally due to their short maturity: trade and other receivables, cash at bank and in hand, trade and other payables and current borrowings. There is no significant difference between the fair value and carrying amount of non-current borrowings as the impact of discounting is not significant.

All remaining financial assets and liabilities are classified as level 3 inputs and there have been no reclassifications between the levels during the year. The interest rate swap cash flow hedge was a level 2 input; however it was settled during the year.

## 16. FINANCIAL INSTRUMENTS (CONT'D)

**Maturity of non-current financial liabilities**

**2013**

| | Bank loans | 8.875 % Senior secured Loan Notes | 2013 Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Between two and five years (note 15) | - | 205,000 | 205,000 |
| | - | 205,000 | 205,000 |

**2012 unaudited**

| | Bank loans | 8.875 % Senior secured Loan Notes | 2012 Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Between one and two years (note 15) | 15,764 | - | 15,764 |
| Between two and five years (note 15) | 89,209 | - | 89,209 |
| | 104,973 | - | 104,973 |

**Foreign currency sensitivity**

The Group is primarily exposed to Australian dollars and US dollars. The following table details how the Group's income and equity would increase on a before tax basis, given a 10% revaluation in the respective year-end currencies against GBP and in accordance with IFRS 7 all other variables remaining constant. A 10% devaluation in the value of GBP would have the opposite effect.

The 10% change represents a possible change in the specified foreign exchange rates in relation to GBP.

## 16. FINANCIAL INSTRUMENTS (CONT'D)

| | Income Sensitivity 2013 £'000 | Equity Sensitivity 2013 £'000 | Unaudited Income Sensitivity 2012 £'000 | Unaudited Equity Sensitivity 2012 £'000 |
|---|---|---|---|---|
| Australian Dollars | **(4,214)** | **(7,886)** | (1,512) | (7,881) |
| US Dollars | **(1,170)** | **1,740** | (283) | 579 |
| Other | **(118)** | **115** | (161) | 146 |
| **Equity decrease** | **(5,502)** | **(6,031)** | (1,956) | (7,156) |

### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to remain as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheet less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Total borrowings (note 15) | **203,210** | 122,795 |
| Less: Total cash and cash equivalents | **(17,536)** | (15,630) |
| **Net Debt** | **185,674** | 107,165 |
| Total Equity | **131,008** | 283,443 |
| **Total Capital** | **316,682** | 390,608 |
| | | |
| **Gearing** | **59%** | **27%** |

## 17. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method. The movement on the deferred tax assets and liabilities is as shown below:

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Balance at the beginning of the year | **4,254** | (3,295) |
| Arising on acquisition (note 20) | **(474)** | - |
| Reclassification | **(825)** | - |
| Charge/(credit) to statement of comprehensive income (note 5) | **(4,934)** | 8,887 |
| Tax losses utilised | **-** | (1,520) |
| Exchange adjustments | **(495)** | 17 |
| Change in tax rates | **-** | 165 |
| Net deferred tax (liability)/asset at end of the year | **(2,474)** | 4,254 |

Deferred tax assets have been recognised in respect of all losses and other temporary differences to the extent that it is probable that those assets will be recovered.

Following the refinancing in September 2013, a review of deferred tax assets was undertaken and a number of balances were written off as management determined there to be insufficient certainty of recovery.

No deferred tax is provided for tax liabilities which would arise on the distribution of profits retained by overseas subsidiaries because there is currently no intention that such profits will be remitted.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset.

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Deferred tax assets and liabilities relates to the following: | | |
| **Deferred tax assets** | | |
| Tax losses carried forward | **1,716** | 12,299 |
| Property, plant and equipment | **726** | 2,248 |
| Intangible assets | **-** | 3,913 |
| Employee provisions | **1,400** | 1,551 |
| Other provisions | **4,939** | 5,545 |
| Unrealised foreign exchange losses | **2,112** | - |
| | **10,893** | 25,556 |
| **Deferred tax liabilities** | | |
| Property, plant and equipment | **-** | 22 |
| Intangible assets | **(12,953)** | (21,521) |
| Prepayments | **(414)** | (373) |
| Other | **-** | 570 |
| | **(13,367)** | (21,302) |
| **Net deferred tax (liability)/asset** | **(2,474)** | 4,254 |
| Presented in the statement of financial position as follows: | | |
| Deferred tax assets | **996** | 25,556 |
| Deferred tax liabilities | **(3,470)** | (21,302) |
| **Net deferred tax (liabilities)/assets** | **(2,474)** | 4,254 |

## 18. SHARE CAPITAL

| | 2013 | | Unaudited 2012 | |
|---|---|---|---|---|
| | **Number of shares** | **£** | Number of shares | £ |
| Ordinary shares authorised, allotted and issued of £1 each | **1** | **1** | 1 | 1 |

## 19. CASH FLOW FROM OPERATING ACTIVITIES

| | **2013 £'000** | Unaudited 2012 £'000 |
|---|---|---|
| Loss before taxation | **(61,784)** | (7,946) |
| Interest expense | **18,787** | 13,550 |
| Amortisation and depreciation | **19,025** | 19,059 |
| Impairment of Goodwill | **18,000** | - |
| Acquisition costs | **109** | 95 |
| Deferred finance costs expensed | **6,176** | 2,102 |
| Unrealised Foreign exchange (gain)/loss | **21,727** | 910 |
| Share scheme expenses | **117** | - |
| Share of associates loss | **(18)** | 4 |
| (Gain)/loss on disposal of property, plant and equipment | **-** | (8) |
| (Gain)/loss on interest rate swap | **(752)** | (356) |
| Interest income | **(210)** | (251) |
| (Increase)/Decrease in inventories | **(8)** | 14 |
| (Increase)/Decrease in trade and other receivables | **3,345** | 6,205 |
| Increase/(Decrease) in unearned revenues | **(2,892)** | 3,933 |
| Increase/(Decrease) in provisions | **1,384** | (3,463) |
| Increase/(Decrease) in trade and other payables | **(5,078)** | (7,950) |
| CASH GENERATED FROM OPERATIONS | **17,928** | 25,898 |

## 20. ACQUISITION OF BUSINESSES

On 29 November 2013, the Group acquired part of the trade and assets of ANU Enterprise Pty Ltd, being ANU College at Australia National University (ANU) in Canberra for a consideration of £2.3 million.

The fair value of the net assets acquired is set out below:

| | Fair Value 2013 £'000s |
|---|---|
| Intangible assets | 1,580 |
| Property, plant and equipment | 747 |
| Cash and cash equivalents | 1,111 |
| Trade and other receivables | 813 |
| Other current assets | 184 |
| Trade and other payables | (116) |
| Unearned income | (1,813) |
| Deferred tax liability | (474) |
| Provisions | (168) |
| **Net assets/(liabilities)** | **1,864** |
| Goodwill | 474 |
| **Total consideration (including deferred consideration)** | 2,338 |
| | |
| Satisfied by: | |
| Cash | 1,503 |
| Deferred consideration | 835 |
| **Net Cash consideration for 2013** | **2,338** |
| | |
| Net cash outflow arising on acquisition: | |
| Total purchase consideration | 2,338 |
| Deferred consideration | (835) |
| Cash and cash equivalents acquired | (1,111) |
| Directly attributable costs | 40 |
| | **432** |

The fair values set out above are provisional and are subject to possible amendment on finalisation of the fair value exercise due to the proximity to the year end.

The total deferred consideration of £0.8 million is likely to be payable by the end of 2014.

The goodwill arising on acquisition is attributable to the anticipated profitability arising from the Higher Education business. None of the goodwill is deductible for tax purposes.

Intangible assets recognised on acquisition relate to the future benefits of operating the contract to run ANU College.

Acquisition related costs included in administrative expenses, amount to £0.1 million.

In the period since acquisition, the operation acquired has contributed £0.4 million revenue and £0.2 million EBITDA loss for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, the total revenue and EBITDA from this operation would have been £3.0 million and £0.5 million respectively.

There have been no disposals during the year.

## 21. EMPLOYEES

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Staff costs for the Group during the year: | | |
| Wages and salaries | **83,808** | 82,272 |
| Social security costs | **6,901** | 7,082 |
| Superannuation and other pension costs | **4,028** | 3,729 |
| | **94,737** | 93,083 |

Average monthly number of people (including executive directors) employed by the Group:

| | 2013 | Unaudited 2012 |
|---|---|---|
| Operations | **1,624** | 1,669 |
| Sales, marketing and distribution | **274** | 185 |
| Administration | **517** | 508 |
| | **2,415** | 2,362 |

**Key management compensation:**

Key management are defined as the Global Executive Team (GET), which is the team of senior management who support the Chief Executive Officer in the day to day management of the Group's affairs and are involved in strategic decision making.

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Salaries and short-term benefits | **3,252** | 3,389 |
| Termination Payments | **483** | 378 |
| Post-employment benefits | **115** | 95 |
| | **3,850** | 3,862 |

## 22. FINANCIAL COMMITMENTS

CAPITAL COMMITMENTS

There are no capital commitments.

CONTINGENT LIABILITIES

The Company and its subsidiary undertakings are, from time to time, parties to legal proceedings and claims, which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings and claims will have a material adverse effect upon the Group's financial position. In addition we were notified of a claim in February 2014 in California. The claim is at an early stage, the Company denies all wrongdoing, and the Directors are continuing their investigations.

The Group had £7.9 million (2012: £8.4 million) in outstanding bank guarantees at the end of the year. The majority of these are guarantees against future rental commitments.

## 23. OPERATING LEASE COMMITMENTS

The totals of future minimum lease payments in respect of non-cancellable operating leases, falling due are as follows:

| | Plant and Machinery | | Land and Buildings | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | Unaudited 2012 | 2013 | Unaudited 2012 | 2013 | Unaudited 2012 |
| | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's |
| Not later than one year | **44** | 43 | **22,513** | 26,293 | **22,557** | 26,336 |
| Later than one year but not more than five years | **42** | 84 | **58,815** | 69,406 | **58,857** | 69,490 |
| More than five years | **-** | - | **100,938** | 92,288 | **100,938** | 92,288 |
| | **86** | 127 | **182,266** | 187,987 | **182,352** | 188,114 |

## 24. RELATED PARTY DISCLOSURES

There were no contracts with the EDU UK Intermediate Ltd (the Company) or any of its subsidiaries existing during or at the end of the financial year in which a director of the Company was materially interested. The Group has taken advantage of the exemption available under IAS 24 'Related party disclosures' not to disclose transactions and balances between Group entities that have been eliminated on consolidation.

The Group paid a management fee and expenses of £0.7 million (2012: £0.5 million) to Providence Equity during the year with £0.3 million outstanding at year end (2012: £nil). During the year, the Group also paid consulting fees of £0.2 million (2012: £0.1 million) on behalf of Providence with £nil outstanding at year end (2012: £nil). The Group paid Peterson investments £0.2 million with £nil outstanding at year end (2012: £nil) and there were other management fees and expenses of £0.4 million.

The Group has subordinated preference certificates (SPC's) in issue to its immediate parent entity, EDU UK Topco Ltd.

The Group had £0.7 million (2012: £nil) intercompany transactions with EDU UK Topco Ltd, its immediate parent entity and has balances due to EDU UK Topco Ltd of £4.0 million at the year-end (December 2012: £3.3 million).

The Group redeemed £74.5 million of preference shares due to EDU UK Topco Ltd in the year including interest (2012 £nil).

**Trading transactions**

During the year the Group entered into transactions with related parties who were not members of the Group:

**Trading transactions**

| | Sale of goods | | Purchase of goods | | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| Company under common control | **179** | 27 | **145** | 24 | **88** | - | **40** | - |

## 24. RELATED PARTY DISCLOSURES (CONT'D)

**Director's interests in shares**

No director has shares directly in the Company. However, refer to accounting policy 1.22 Employee benefits for details of employee share schemes.

**Aggregate Directors' remuneration**

The total amount for directors' remuneration was as follows:

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Salaries and short-term benefits | 841 | 947 |
| Post-employment benefits | 38 | 11 |
| | 879 | 958 |

**Highest paid director**

| | 2013 £'000 | Unaudited 2012 £'000 |
|---|---|---|
| Salaries and short-term benefits | 435 | 639 |
| Post-employment benefits | 29 | 11 |
| | 464 | 650 |

## 25. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is EDU UK Topco Ltd.

The ultimate parent undertaking and controlling party is Providence Equity Partners VI International LP, a company incorporated in the Cayman Islands.

The parent company of the largest consolidated group is EDU UK Topco Ltd and the parent company of the smallest consolidated group is EDU UK Intermediate Ltd.

## 26. EVENTS AFTER THE BALANCE SHEET DATE

There were no events between the reporting date and the date the financial statements were authorised for issue that require disclosure.

## *Independent auditors' report to the members of EDU UK Intermediate Ltd*

**Report on the financial statements**

**Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

**What we have audited**

The financial statements, which are prepared by EDU UK Intermediate Ltd, comprise:

- the balance sheet as at 31 December 2013;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

**What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Other matters on which we are required to report by exception**

**Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the directors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Alan Kinnear (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Crawley
12 March 2014

## EDU UK INTERMEDIATE LTD

### PARENT COMPANY STATEMENT OF FINANCIAL POSITION
at 31 December 2013

The financial statements and notes on pages 61 to 65 were approved by the Board of directors on 12 March 2014 and were signed on its behalf.

| | Note | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| | | **£'000** | £'000 |
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Investments | 3 | 222,322 | 273,782 |
| | | 222,322 | 273,782 |
| CURRENT ASSETS | | | |
| Current tax assets | | 491 | - |
| | | 491 | - |
| **LIABILITIES** | | | |
| NET CURRENT ASSETS | | 491 | - |
| NON-CURRENT LIABILITIES | | | |
| Trade and other payables | 4 | 2,161 | - |
| | | 2,161 | - |
| **NET ASSETS** | | **220,652** | **273,782** |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | | | |
| Share capital | 5 | - | - |
| Preference Share Capital | | 222,272 | 273,782 |
| Translation reserve | | - | - |
| Accumulated losses | | (1,620) | - |
| **TOTAL EQUITY** | | **220,652** | 273,782 |

D Leigh

**Director EDU UK Intermediate Ltd Registered no. 07285315**

## 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.1 GENERAL INFORMATION

**Accounting policies for the year ended 31 December 2013**

As used in the financial statements and related notes, the term 'Company' refers to EDU UK Intermediate Ltd which was incorporated on 15 June 2010. The Directors have confirmed that they believe that the Company's accounting policies are the most appropriate for the purposes of providing a true and fair view of the Company's results and state of affairs and have been consistently applied except where indicated below. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Company financial statements were approved by the Board of Directors on 12 March 2014.

### 1.2 BASIS OF PREPARATION

The separate financial statements of the Company are presented as required by the Companies Act 2006 and applicable accounting standards in the United Kingdom. The financial statements have been prepared on a going concern basis under the historical cost convention in accordance of the rationale set out in the directors' statement of going concern of the Directors' Report. The principal accounting policies are set out below they have all been applied consistently throughout the period.

The principal accounting policies are set out below and have been applied consistently throughout the year.

**Profit and loss account**

Under section 408 (3) of the Companies Act 2006, the Company is exempt from the requirements to present its own profit and loss.

**Cashflow statement**

The Company is a wholly owned subsidiary company of a group headed by EDU UK Topco Ltd, and is included in the consolidated financial statements of that company, which are publicly available. Consequently, the company has taken advantage of the exemption within FRS1 (revised 1996) 'Cashflow statements' from a cashflow statement.

### 1.3 INVESTMENTS

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment.

### 1.4 FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 1.5 TAXATION

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered). Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities are not discounted.

### 1.6 OTHER PAYABLES

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

## 2. OPERATING RESULT

Auditors' remuneration has been borne by the company's subsidiary undertaking.

## 3. INVESTMENTS

The movements in the net book value of interests in subsidiary undertakings are as follows:

| | **Total £'000** |
|---|---|
| COST | |
| Subordinated preference certificates issued | **273,782** |
| Investment in EDU UK Bondco Ltd | **50** |
| Repayment of subordinated preference certificates | **(51,510)** |
| **At 31 December 2013** | **222,322** |

| | Total £'000 |
|---|---|
| COST | |
| Subordinated preference certificates issued | 273,782 |
| At 31 December 2012 | 273,782 |

The company has a £1 investment in its immediate subsidiary, EDU UK Intermediate Ltd.

Subordinated preference certificates (SPCs) have been issued by subsidiary undertakings. The SPCs are redeemable at the option of the issuer by applying the predetermined redemption price, which is £1 for each SPC. The SPCs are unsecured and rank behind all other obligations of the Company except that they rank ahead of the shares on issue. These instruments are carried at cost and have a redemption date of 1 July 2040; however the company can defer the redemption date indefinitely.

A repayment of subordinated preference certificates was made using some of the bond proceeds.

**EDU UK INTERMEDIATE LTD**
**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONT'D)**

## 3. INVESTMENTS

PRINCIPAL COMPANY SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings of the Company, which are included in the financial statements, are set out below.

| Name of Entity | Country of Incorporation | Ownership Interest % 2013 | Nature |
|---|---|---|---|
| ***Controlled Entities:*** | | | |
| EDU UK Bidco Ltd | United Kingdom | **100** | Holding |
| EDU UK Bondco Plc | United Kingdom | **100** | Holding |

## 4. OTHER PAYABLES

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| NON CURRENT: | | |
| Other payables | **2,161** | - |

## 5. SHARE CAPITAL

| | **2013 Number of shares** | **2013 £** | 2012 Number of shares | 2012 £ |
|---|---|---|---|---|
| Ordinary shares authorised, allotted and issued of £1 each | **1** | **1** | 1 | 1 |

## 6. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Results for the financial year | **(1,620)** | - |
| Opening shareholders' fund | **273,782** | 273,782 |
| Repayment of subordinated preference certificates | **(51,510)** | - |
| **Closing shareholders' funds** | **220,652** | 273,782 |

## 7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

There were no employees in the current year other than the directors who did not receive any emoluments in respect of their services to the Company (2012: £nil)

## 8. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is EDU UK Topco Ltd.

The ultimate parent undertaking and controlling party is Providence Equity Partners VI International LP, a company incorporated in the Cayman Islands.

The parent company of the largest consolidated group is EDU UK Topco Ltd and the parent company of the smallest consolidated group is EDU UK Intermediate Ltd.

## 9. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption in FRS8 from the requirement to disclose transactions with group companies on the grounds that this is disclosed in the consolidated financial statements.

## 10. EVENTS AFTER THE BALANCE SHEET DATE

There were no events between the reporting date and the date the financial statements were authorised for issue that require disclosure.

## 11. CONTINGENT LIABILITIES

The Company has no contingent liabilities.