

# Nord Anglia Education plc

## Sale of Nursery Division

The Board of Nord Anglia Education plc ("Nord Anglia") announces that it has agreed the proposed sale of its Nursery division ("Leapfrog Nurseries") to Busy Bees, a subsidiary of A.B.C. Learning Centres Limited ("A.B.C."). As a consequence of its size, the sale is conditional upon the approval of Nord Anglia Shareholders at an Extraordinary General Meeting.

### KEY POINTS

- Proposed sale of the Nursery division for a total consideration of £31.2m to be paid in cash on Completion.
- The buyer, A.B.C., an Australian-based nursery operator, plans to merge Leapfrog Nurseries with its UK-based chain of nurseries trading as Busy Bees.
- Proceeds from the proposed sale will allow the Continuing Group to reduce debt significantly and finance investment in, and focus management on its International Schools and Learning Services divisions.
- Further to the trading update given at the time of the interim results, Nord Anglia can confirm that its International Schools and Learning Services divisions are performing well and that it expects earnings for the full year to be in line with expectations.

Alan Kelsey, Nord Anglia's Chairman, comments:

***"The Board believes that the sale of the Nursery division is in the best interests of Nord Anglia Shareholders. We wish the management, staff and new owners of the business every success."***

***"Nord Anglia will continue to focus on the expansion of its International Schools and Learning Services divisions. The Disposal will enable us to concentrate on these value creating businesses."***

***"We look to the future with much confidence."***

**13<sup>th</sup> August 2007**

**ENQUIRIES:**

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## **NORD ANGLIA EDUCATION PLC**

**FOR IMMEDIATE RELEASE**

**13 AUGUST 2007**

### **PROPOSED DISPOSAL OF LEAPFROG NURSERIES TO A.B.C. FOR £31.2 MILLION**

#### **1. Introduction**

Nord Anglia Education plc ("Nord Anglia") today announces that it has conditionally agreed to sell its nursery operations, Leapfrog Nurseries, to Busy Bees, a subsidiary of A.B.C. Learning Centres Limited, an Australian-based nursery operator, for an aggregate cash consideration of £31.2 million, subject to the terms and conditions of the Disposal Agreement.

Completion of the Disposal is conditional upon the approval of Nord Anglia Shareholders. A circular containing a notice convening an Extraordinary General Meeting, at which a resolution to approve the Disposal will be proposed, will be sent to Nord Anglia Shareholders as soon as possible.

#### **2. Background to and reasons for the Disposal**

Building on Nord Anglia's 'British' heritage and strong education credentials, the Company's International Schools and Learning Services divisions have performed strongly in recent years, with significant growth in both turnover and earnings. Nord Anglia's strategy is to capitalise on this success and to continue expanding both divisions overseas where it can see opportunities for profitable growth while continuing to tender for new Learning Services contracts in the UK.

In contrast, Leapfrog Nurseries has experienced challenging market conditions. Since 2004, there has been a large increase in the number of nurseries and available childcare places in the UK. This reflects both an increase in the number of new operators entering the market and a large increase in the number of State subsidised places. The growth in demand, however, has not kept pace with the increase in supply and has impacted fee rates and occupancy levels across the sector. Since 2004 Nord Anglia has reduced the number of nurseries it operates from 101 to 88 by closing and/or selling a number of poorly performing settings. Despite these closures and recent improvements in occupancy levels, the Board is of the view that the Nursery division does not possess the development potential of either the International Schools or Learning Services divisions.

Nord Anglia and its advisers have assessed a number of options to maximise value to Nord Anglia Shareholders as part of a wide-ranging review of Leapfrog Nurseries, including its possible disposal. During the course of this process, Nord Anglia received a number of approaches from parties looking to consolidate a fragmented market. After careful consideration, Nord Anglia concluded that its shareholders would be best served if the financial and management resources committed to Leapfrog Nurseries be redeployed into its higher growth International Schools and Learning Services divisions. Accordingly, the Board has decided to recommend the offer from A.B.C. to Nord Anglia Shareholders.

The Disposal is also expected to result in a substantial reduction in the Continuing Group's central overhead.

A.B.C. plans to merge Leapfrog Nurseries with its UK-based chain of nurseries, Busy Bees. The Board of Nord Anglia believes that the Disposal will leave Leapfrog Nurseries well-placed to move forward under a sympathetic owner committed to the UK nurseries market.

### **3. Information on Leapfrog Nurseries**

Nord Anglia operates the UK's largest nursery chain under the Leapfrog brand with 88 nurseries and approximately 9,000 childcare places. The division employs approximately 2,500 full and part-time employees. Leapfrog Nurseries is also a childcare voucher provider supplying vouchers to employers in the UK.

For the year ended 31 August 2006, Leapfrog Nurseries reported gross revenue of £47.1 million and an audited loss before tax and after exceptional items on continuing operations of £3.5 million. For the six months ended 28 February 2007, Leapfrog Nurseries reported gross revenue of £22 million and an unaudited loss before tax and after exceptional items on continuing operations of £0.6 million.

### **4. Information on A.B.C.**

A.B.C. is the largest publicly listed childcare operator in the world by number of sites and currently owns over 2,000 childcare centres in four countries with a combined capacity to care for over 200,000 children.

A.B.C. is based in Australia and has been listed on the Australian Securities Exchange since 2001. It has a market capitalisation of approximately AUD\$3.2 billion as at the date of this announcement. It has expanded through a series of acquisitions and first began operating in the UK in December 2006 through the acquisition of Busy Bees.

Busy Bees operates a network of owned and managed nurseries which offer over 4,000 places across the UK. Busy Bees is also a leading childcare voucher provider servicing more employers than any other provider.

### **5. Principal terms of the Disposal**

Under the terms of the Disposal Agreement, Nord Anglia has conditionally agreed to sell Leapfrog Nurseries to Busy Bees. The consideration for the Disposal will be £31.2 million on a debt-free basis, payable in cash to Nord Anglia at Completion. There will be £2 million in cash retained by Leapfrog Nurseries in respect of miscellaneous liabilities, the majority of which comprise unredeemed vouchers.

Completion of the Disposal is conditional upon approval by Nord Anglia Shareholders. A circular containing a notice convening an Extraordinary General Meeting, at which a resolution to approve the Disposal will be proposed, will be sent to Nord Anglia Shareholders as soon as possible.

### **6. Irrevocable undertakings**

Funds managed and advised by Principle Capital Group have entered into an undertaking with Nord Anglia to vote in favour of the proposed resolution approving the Disposal to be considered at the Extraordinary General Meeting in respect of their entire shareholdings at the date of the Extraordinary General Meeting. The current shareholding of such funds amounts to approximately 26 per cent. of the entire issued share capital of Nord Anglia. This undertaking to vote in favour of such resolution will cease to be binding on the relevant funds:

1. if the Board of Nord Anglia do not continue to recommend the Disposal;

2. if Nord Anglia receives a better offer for the sale of Leapfrog Nurseries;
3. if an offer is made for the Nord Anglia Shares at a premium to the share price as at 10 August 2007; or
4. on 3 October 2007, when the undertaking expires.

The directors of Nord Anglia who own shares have also entered into irrevocable undertakings in respect of their entire shareholdings, representing 0.12 per cent. of the issued share capital of Nord Anglia, to vote in favour of the proposed resolutions at the Extraordinary General Meeting.

#### **7. Financial effects of the Disposal and use of proceeds**

The Disposal will lead to a substantial write down which will reduce Nord Anglia's reserves because the book value of Leapfrog Nurseries (£78.6 million as at 31 August 2006) is significantly greater than the Disposal consideration.

Under the terms of the banking facilities with Lloyds TSB and Allied Irish Bank, Nord Anglia is required to use the net proceeds from the Disposal to repay the loans it has drawn down. These loans are to be repaid in the following order:

- £20 million to repay the term loan facility. Upon repayment this facility will be cancelled; and
- the remainder of the Disposal proceeds (after meeting the costs of the Disposal) are to be used to repay the amounts drawn down under the revolving credit facility. The amount repaid can be re-drawn at a later date subject to pre-conditions in the facility documentation.

#### **8. Future strategy**

Following the Disposal, Nord Anglia's strategy will be focused on operating and developing its International Schools and Learning Services divisions. These divisions have generated higher levels of profitability than the Nursery division in recent years.

##### ***International Schools***

Nord Anglia proposes to develop its presence in both new and existing locations. Key markets identified for expansion include the Far East, Middle East and Europe.

Nord Anglia currently operates seven International Schools, six of which provide a British education for expatriate students between the age of three and eighteen with the other school providing preschool education to Korean students in Seoul up to the age of six. Nord Anglia intends to grow rapidly its International Schools' student capacity in the coming years both within existing markets and in new markets offering attractive economic returns.

Whilst most of Nord Anglia's International Schools cater for expatriate children aged between three and eighteen, it is trialling preschools for local children up to the age of six. Nord Anglia's school in Seoul caters for local children as will the new planned school in Ningbo in China.

The growing affluent domestic Chinese market represents an exciting opportunity for Nord Anglia. At present the Chinese government restricts foreign education providers such as Nord Anglia from educating Chinese school age pupils above the age of six. Nord Anglia's school in Ningbo will be its first to cater for Chinese pupils.

When expanding, Nord Anglia primarily intends to follow its existing model of leasing school buildings from developers which it subsequently fits out to its requirements. This strategy facilitates opening new schools quickly with modern facilities. The Board however believes it is important to retain flexibility for its International Schools business model provided acceptable economic returns are achievable.

In November 2006 Nord Anglia estimated that under its then planned rate of growth its International Schools student capacity could expand to between 15,000 and 20,000 places within a three to five year period and the Board remains of the view that the Company is on track to achieve this.

### ***Learning Services***

Nord Anglia is a provider of public services focused exclusively on education, training and careers in the UK. The division is built around the expertise and relationships Nord Anglia has developed operating various contracts for local and national government agencies. Nord Anglia plans to continue using those experiences and relationships to win new contracts as existing contracts expire. In particular Nord Anglia will look to build on the experience it has gained from working with Ofsted, the MOD and the Quality Improvement Agency to secure other contracts in the UK.

Nord Anglia is also increasingly focused on using the experience it has gained in the UK to operate contracts overseas, building on its recent successes in winning contracts in the United Arab Emirates, Bahrain and Saudi Arabia and its ability to create a portfolio of overseas education contracts. To facilitate this strategy, it has recently established a business development office for the Gulf States in Abu Dhabi.

## **9. Current trends in trading and prospects**

Nord Anglia announced its interim results for the six months ended 28 February 2007 on 1 May 2007, reporting turnover of £55.4 million (H1 2006: £48.8 million) and profit on ordinary activities before tax of £1.1 million (H1 2006: £0.5 million loss).

Further to the trading update given at the time of the interim results, Nord Anglia can confirm that its International Schools and Learning Services divisions are performing well and that it expects earnings for the full year to be in line with expectations.

In light of the sale of the Nursery division, the Board will be undertaking a full review of the Company's capital structure, having regard to the opportunities available for investment in its International Schools and Learning Services businesses.

Following the Disposal the Company will undertake a review of the central function with a view to reducing its costs.

## **10. Other resolutions**

### ***Increase in borrowing powers***

Nord Anglia's articles of association permit it to borrow up to three times its adjusted net assets. Following the sale of Leapfrog Nurseries the adjusted net assets are expected to amount to circa £8 million and as such the maximum amount that may be borrowed would amount to circa £24 million. This compares to an available revolving credit facility of £35 million, and borrowings in overseas jurisdictions of £1.4 million. In order to provide Nord Anglia with flexibility and to facilitate it fully utilising its current banking facilities, it is proposed that the limit on the borrowing powers be temporarily increased to £40 million by the passing of an ordinary resolution at the Extraordinary General Meeting, such temporary

increase to expire on the close of the annual general meeting to be held early in 2009 (unless subsequently increased by passing of a further ordinary resolution).

### ***Proposed reduction of share capital***

Following the sale of Leapfrog Nurseries and as a result of the loss which will be realised following such sale, the balance sheet of Nord Anglia is expected to show an accumulated loss which would prevent the declaration of future dividends until the accumulated loss is reversed. To ensure there is no ongoing prohibition to declaring dividends in favour of Nord Anglia Shareholders, it is proposed that Nord Anglia will undertake a reduction of share capital whereby the amount of the share premium account of £51 million will be eliminated by the passing of a special resolution. Following the passing of this resolution, Nord Anglia will make an application to the Court to credit the amount by which the share premium account is reduced to the deficit on the distributable reserves. The resulting distributable reserves would enable Nord Anglia to declare future dividends in favour of Nord Anglia Shareholders (subject to such distributable reserves remaining in credit).

The Board of Nord Anglia has no current intention to declare any dividends for the current financial year and will consider whether it will return to paying regular dividends in the subsequent financial years based on the performance of Nord Anglia and its requirements for reinvestment of profits.

### **11. Recommendation**

The Board of Nord Anglia considers that the terms of the Disposal are fair and reasonable and in the best interests of Nord Anglia and Nord Anglia Shareholders as a whole. It also considers the proposed increase in borrowing powers and the proposed reduction of share capital to be in the best interests of Nord Anglia and Nord Anglia Shareholders as a whole. Accordingly, the Board of Nord Anglia unanimously recommends that Nord Anglia Shareholders vote in favour of all the resolutions to be proposed at the Extraordinary General Meeting, as all of those Directors who own shares have irrevocably committed to do in respect of their entire beneficial shareholdings.

### **ENQUIRIES:**

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Stephen Hyde, Group Finance Director

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## DEFINITIONS

The following definitions apply throughout this announcement unless the context requires otherwise:

"A.B.C."	A.B.C. Learning Centres Limited, the ultimate parent company of the Purchaser
"Allied Irish Bank" or "AIB"	AIB Group plc
"Busy Bees"	Busy Bees Group Limited (Co. No. 4968957) and its subsidiaries being UK subsidiaries of A.B.C. which operates childcare nurseries under the "Busy Bees" name
"Completion"	completion of the sale of the Leapfrog Nurseries
"Continuing Group"	the Group as constituted after Completion
"Disposal"	the proposed disposal of Leapfrog Nurseries pursuant to the Disposal Agreement
"Disposal Agreement"	the conditional agreement dated 13 August 2007 between Nord Anglia and Leapfrog Day Nurseries Trading Limited (as sellers) and Busy Bees
"International Schools"	the part of the Group's business which operates "British" style schools outside the UK
"Learning Services"	the part of the Group's business which provides services to the education sector, predominantly in the UK
"Leapfrog Nurseries"	the business carried on by Leapfrog Day Nurseries (Trading) Limited, Nord Anglia Nurseries Limited and their subsidiaries, namely the provision of the nursery and/or preschool education to children under the age of 5
"Lloyds TSB"	Lloyds TSB Bank plc
"Nord Anglia" or "Company"	Nord Anglia Education plc
"Nord Anglia Shareholders"	holders of the ordinary shares of 5p each in the share capital of the Company