



2017/2018 ANNUAL REPORT



SPOTLESS

Integrated Facilities Services

**AUSTRALIA AND NEW ZEALAND'S
LEADING PROVIDER OF INTEGRATED
FACILITIES SERVICES.**

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SPOTLESS GROUP HOLDINGS LIMITED

ABN 27 154 229 562
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2018

Directors' Report

The Directors hereby present their report for the year ended 30 June 2018. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Directors

The names and details of Directors of Spotless Group Holdings Limited (the "Group" or "Spotless") during the entire financial year and up to the date of this report, unless otherwise stated were:

Director Profiles

Professor John Humphrey

Chairman, Non-Executive Director

LLB

John was appointed a Non-Executive Director in July 2017 and appointed Chairman on 24 August 2017. He is also a member of the Audit, Business Risk and Compliance Committee and the People and Remuneration Committee.

He served as independent Non-Executive Director at Downer between 2001 and 2016. He is currently the Executive Dean of the Faculty of Law at Queensland University of Technology and a Legal Consultant to King & Wood Mallesons. John is currently a Director at Lynas Corporation Ltd and the Chairman of both Horizon Oil Limited and Auswide Bank Limited. He is also a former member of the Australian Takeovers Panel.

Dana Nelson

Chief Executive Officer and Managing Director

Diploma of Applied Science (Orthoptics), Masters of Enterprise (Management & Leadership) (Melbourne Business School)

Dana was appointed Chief Executive Officer and Managing Director on 22 August 2017.

Prior to this appointment, Dana held the role of the Chief Operating Officer ("COO") of Spotless. In her role as COO she had full accountability for all Spotless' key sectors, services lines and brands across Australia and New Zealand. Dana commenced with Spotless in 2010 heading the development of Alliance Catering prior to assuming the role of Group Divisional Manager with responsibility for the Business & Industry, Education and Leisure, Sports & Entertainment sectors. Before joining Spotless, Dana was the Managing Director of Australia and New Zealand for Delaware North.

Michael Ferguson

Non-Executive Director

BCom, CA

Michael was appointed a Non-Executive Director in July 2017. He is also a member of the Audit, Business Risk and Compliance Committee.

He is the Chief Financial Officer at Downer and leads Downer's financial reporting, tax, treasury, shared service, IT, M&A and risk management activities. Michael has held a range of senior finance positions in a career spanning 25 years. He was previously VP Finance for ASX listed explosives group Dyno Nobel and more recently held a number of portfolio CFO positions for a large private equity fund.

Directors' Report (continued)

Director Profiles (continued)

Simon McKeon AO

Non-Executive Director

BCom, LLB, DPH, FAICD

Simon was appointed a Non-Executive Director in December 2016. He is Chairman of the Audit, Business Risk and Compliance Committee.

He is currently Chancellor of Monash University, was Australian of the Year in 2011 and was made an Officer of the Order of Australia in 2012 for distinguished services to business, commerce and the community. Simon has extensive experience in senior leadership and Board roles across a broad range of industries and sectors; this includes having served as Executive Chairman of Macquarie Group Melbourne as well as Chairman of AMP, CSIRO and MYOB and as the Founding President of the Australian Takeovers Panel.

During his over 30 years at Macquarie Group, Simon specialised in corporate mergers and acquisitions, fund raising and strategic advice. He continues to be retained as a consultant by Macquarie Group. Prior to joining Macquarie Group, he practiced as a lawyer with Blake Dawson Waldron in Sydney.

Simon is an active philanthropist and has been a significant contributor over many years to charitable, educational, public health and other community based organisations and causes.

Simon is presently Chairman of South East Melbourne and Summer Housing and President of the Review Panel of the Banking and Finance Oath. He is an Australia Day Ambassador for the Victorian Government and also serves on the Advisory Boards of The Big Issue, Blackmagic Design and GFG Alliance.

Grant Thorne

Non-Executive Director

BSc (Hons), PhD, FAusIMM, GAICD

Dr Thorne was appointed a Non-Executive Director in July 2017. He is also a member of the Audit, Business Risk and Compliance Committee and the People and Remuneration Committee.

Dr Thorne has over 36 years of experience in the mining and extraction industry, specifically in senior operational and executive roles with Rio Tinto. His experience spanned a range of product groups and functional activities in Australia and overseas. After serving in London as Group Mining Executive from 1996 to 1998, Dr Thorne moved to Indonesia as President Director of Kaltim Prima Coal and then returned to Australia to manage Rio Tinto's Australian coal business as Managing Director of Rio Tinto Coal Australia and the publicly listed Coal and Allied Industries. He was President of the Queensland Resources Council in 2001-2003.

In 2006, Dr Thorne was appointed global head of Rio Tinto's technology, innovation and project engineering functions, reporting to the Chief Executive. He was a member of Rio Tinto's Executive Committee and Investment Committee. He retired from Rio Tinto in 2011.

Dr Thorne is former Director of the Wesley Research Institute, JK Tech and Queensland Energy Resources Limited. He is a Fellow of the Australasian Institute of Mining and Metallurgy.

Directors' Report (continued)

Director Profiles (continued)

Grant Fenn

Non-Executive Director

BCom, CA

Grant was appointed a Non-Executive Director in December 2017.

Grant has over 30 years' experience in operational management, strategic development and financial management. He joined Downer in October 2009 as Chief Financial Officer and was appointed Chief Executive Officer in July 2010.

He was previously a Member of the Qantas Executive Committee, holding a number of senior roles over 14 years, as well as Chairman of Star Track Express and a Director of Australian Air Express. He worked at KPMG for eight years before he joined Qantas. Grant is currently a Director of Sydney Airport Limited and a Member of the UTS Engineering and IT Industry Advisory Board.

Garry Hounsell

Chairman, Independent Non-Executive Director

Retired effective 31 August 2017.

Martin Sheppard

Chief Executive Officer and Managing Director

Retired effective 22 August 2017.

Diane Grady AM

Independent Non-Executive Director

Retired effective 19 July 2017.

The Hon. Nick Sherry

Independent Non-Executive Director

Retired effective 19 July 2017.

Julie Coates

Non-Executive Director

Retired effective 19 July 2017.

Philip Garling

Non-Executive Director

Appointed 19 July 2017 and retired effective 1 December 2017.

Company Secretary

Paul Morris

BEC (Hons), LLB

Paul was appointed Company Secretary and General Counsel in September 2012 and has led the Group Legal team since July 2008. Prior to joining Spotless, Paul was a senior associate at Minter Ellison.

Directors' Report (continued)

Directors' Meetings

	Board (Monthly Meeting)		Board (Short Notice Meeting)		Audit, Business Risk and Compliance Committee		People and Remuneration Committee	
Name	A	B	A	B	A	B	A	B
Professor John Humphrey	8	8	3	3	4	4	4	4
Dana Nelson	8	8	3	3	-	-	-	-
Simon McKeon	8	8	5	5	4	4	4	4
Grant Thorne	8	8	3	2	4	4	4	4
Michael Ferguson	8	8	3	3	4	4	-	-
Grant Fenn	5	4	-	-	-	-	-	-
Garry Hounsell	1	1	2	2	1	1	2	2
Martin Sheppard	-	-	2	2	-	-	-	-
Diane Grady	-	-	1	-	-	-	-	-
The Hon. Nick Sherry	-	-	1	1	-	-	-	-
Julie Coates	-	-	1	1	-	-	-	-
Philip Garling	3	3	3	3	1	1	3	3

A: Number of meetings held where during the period that the Director was a member of the Board or Committee.

B: Number of meetings attended.

Shareholdings

At the date of this report, the interests of the Directors in the shares and options of the Group are as follows:

- Dana Nelson - 1,211,911 options
- Simon McKeon AO - 800,000 shares

Principal activities

The principal activities of Spotless Group Holdings Limited and its subsidiaries during the year ended 30 June 2018 were the provision of outsourced facility services, laundry and linen services, technical and engineering services, maintenance and asset management services and refrigeration solutions to various industries in Australia and New Zealand.

Directors' Report (continued)

Results for the year ended 30 June 2018

- Sales Revenue of \$3,044.6m, up 1.3% from the prior corresponding period, reflecting full year revenue from recently mobilised Public Private Partnerships ("PPPs") contracts and the recently acquired Cabrini Laundry, partially offset by exited contracts.
- EBITDA of \$131.5m, significantly impacted by \$120.1m of individually significant items relating to goodwill impairment (\$40.0m), contract rationalisation and restructure costs (\$9.5m), management redundancies and integration costs (\$9.4m) attributable to the takeover by Downer EDI Limited ("Downer") and other balance sheet adjustments including the write-off of new Royal Adelaide Hospital work in progress ("WIP") and other balance sheet items (\$61.2m).
- Loss after tax of \$(2.3)m includes \$88.4m of individually significant items (after tax) primarily relating to the goodwill impairment (\$40.0m), contract rationalisation and restructure costs (\$9.1m), management redundancies and integration costs (\$9.7m) and other balance sheet adjustments (\$29.6m).
- Operating cash flows of \$136.0m, significantly impacted by a \$57.0m cash drain from the new Royal Adelaide Hospital, \$22.6m of management redundancies, integration costs and contract rationalisation exit costs, resulting in a 28.6% decline from the prior corresponding period.
- Net debt of \$735.4m has decreased from the prior year despite the above-mentioned cash flow constraints and payment for the acquisition of the Cabrini Laundry, reflecting strong cash flow management and improved debtor collections, particularly in the second half. Net leverage ratio of 2.8x (factoring in allowable adjustments for the purposes of debt covenant metrics) has improved from the prior year.

Year Ended 30 June 2018	2018 \$m	2017 \$m	Change %
Sales Revenue	3,044.6	3,006.3	1.3
EBITDA	131.5	(199.2)	>100
EBIT	26.1	(310.9)	>100
Loss after tax	(2.3)	(347.4)	99.3
Basic losses per share (cents)	(0.2)	(31.6)	99.4
Operating cash flow	136.0	190.6	(28.6)
Net debt	735.4	782.3	(6.0)
Net leverage ratio ¹	2.8x	2.9x	

¹ Net leverage ratio includes allowable adjustments to EBITDA for the purpose of debt covenant metrics.

Directors' Report (continued)

Review of Operations

Individually Significant Items

The results for the year ended 30 June 2018 were impacted by the following individually significant items:

Contract Rationalisation and Restructuring Costs

The continued execution of the previously announced Strategy Reset has resulted in a number of one-off costs to the business including contract exit costs, asset write-offs and redundancy costs totalling \$9.1m (after tax).

Goodwill Impairment

A \$40.0m goodwill impairment charge has been recorded for the year ended 30 June 2018 as a result of a deterioration in the operating results of the Laundries business since June 2017.

Management Redundancies and Integration Costs

A number of costs have been incurred as a result of Spotless' acquisition by Downer. These costs largely relate to redundancies and advisor fees.

Other Balance Sheet Items

These costs comprise the write-off of WIP in relation to the underperforming new Royal Adelaide Hospital contract, as well as the write-off of certain balance sheet items as a result of revisions in estimates.

Below is a reconciliation of underlying result to the statutory result:

Year ended 30 June 2018	EBITDA \$m	D&A ¹ \$m	EBIT \$m	Net interest expense \$m	Income tax ² \$m	NPAT ³ \$m
Underlying result	251.6	(94.9)	156.7	(38.6)	(32.0)	86.1
Contract rationalisation and restructuring costs	(9.5)	(1.8)	(11.3)	(1.5)	3.7	(9.1)
Goodwill impairment	(40.0)	-	(40.0)	-	-	(40.0)
Management redundancies and integration costs	(9.4)	-	(9.4)	(3.3)	3.0	(9.7)
Other balance sheet adjustments	(61.2)	(8.7)	(69.9)	-	40.3	(29.6)
Statutory result	131.5	(105.4)	26.1	(43.4)	15.0	(2.3)

¹ Depreciation and amortisation expense

² Income tax (expense) / benefit

³ Net profit / (loss) after tax

Directors' Report (continued)

Statutory Results

Statutory sales revenue increased from June 2017 by \$38.3m (+1.3%) reflecting full year revenue from newly mobilised PPP contracts, the contribution from the newly acquired Cabrini Laundry and increased project works across the Group, partially offset by the full year impact of contracts exited under the contract rationalisation program and the writeback of \$41.0m of revenue relating to the new Royal Adelaide Hospital contract (included in individually significant items).

EBITDA for the period has been significantly impacted by \$120.1m of individually significant items recorded as a result of the Downer takeover and contract rationalisation and restructure. These items include:

- Contract rationalisation and restructuring costs \$9.5m;
- Laundries goodwill impairment \$40.0m;
- Management redundancies and integration costs \$9.4m; and
- Other balance sheet items (WIP write-offs and revisions in estimates) \$61.2m.

Depreciation and amortisation expense and finance costs were both in line with the comparative period.

Income tax expense, excluding tax on individually significant items, represents an effective tax rate of 27.1%.

Operating Segments

Facility Services

Year ended 30 June 2018	2018 \$m	2017 \$m	Change %
Facility Services Sales Revenue	2,842.2	2,782.1	2.2
Facility Services EBITDA	160.4	(64.1)	>100
Depreciation	(39.3)	(39.3)	-
Facility Services EBITA	121.1	(103.4)	>100
Facility Services EBITDA Margin	5.6%	(2.3)%	
Facility Services EBITA Margin	4.2%	(3.7)%	

Revenue growth was driven by full period revenue from PPP contracts mobilised during FY17 and in the current year (including new Royal Adelaide Hospital, Bendigo Hospital and Sydney International Convention Centre), higher volumes across mining camps, and increased responsive works and timing of planned activity works from Government-related contracts. This growth was partially offset by a slowdown in AE Smith construction projects and lower volumes in utility support service contracts and the write-off of new Royal Adelaide Hospital WIP.

Reported earnings exceeded the prior year however, both periods were significantly impacted by individually significant items. Contract rationalisation costs, restructuring costs and other largely non-cash balance sheet adjustments totalling \$67.6m (write-off of new Royal Adelaide Hospital WIP and revisions in estimates), impacted FY18 EBITA whilst \$310.3m of individually significant items impacted the prior year.

EBITDA margins improved from the comparative period however these are impacted by the above mentioned individually significant items.

Directors' Report (continued)

Operating Segments (continued)

Laundries

Year ended 30 June 2018	2018 \$m	2017 \$m	Change %
Laundries Sales Revenue	271.2	276.2	(1.8)
Laundries EBITDA	10.8	(64.5)	>100
Depreciation (including rental stock)	(43.8)	(52.6)	16.7
Laundries EBITA	(33.0)	(117.1)	71.8
Laundries EBITDA Margin	4.0%	(23.4)%	
Laundries EBITA Margin	(12.2)%	(42.4)%	

The Laundries segment experienced a challenging financial year with marginally lower volumes compared to the comparative period. The closure of a number of underperforming plants under the contract rationalisation program also contributed to the \$5.0m (-1.8%) decrease in revenue partially offset by the acquisition of a laundry facility in Victoria.

Reported EBITDA was affected by \$44.3m of individually significant items; \$40.0m of which related to additional goodwill impairment recorded as a result of the underperformance during the period.

Cash Flow

Year ended 30 June 2018	2018 \$m	2017 \$m	Change %
Operating Cash Flow	136.0	190.6	(28.6)
Investing Activities			
Net investments for P,P&E ² , IT ¹ systems and capitalised contract costs	(69.1)	(71.3)	(3.1)
<i>Facility Services – P,P&E and capitalised contract costs</i>	(17.3)	(25.4)	(31.9)
<i>Facility Services – asset sales</i>	3.8	-	-
<i>Laundries – P,P&E and capitalised contract costs</i>	(14.0)	(8.2)	70.7
<i>Laundries – rental stock</i>	(36.2)	(31.5)	14.9
<i>Laundries – asset sales</i>	0.7	10.4	(93.3)
<i>Corporate – P,P&E and IT Systems</i>	(4.5)	(12.2)	(63.1)
<i>Other</i>	(1.6)	(4.4)	(63.6)
Free Cash Flow before acquisitions	66.9	119.3	(43.9)

¹ Information technology

² Property, plant & equipment

Operating cash flows reduced by \$54.6m from the prior period despite significant improvement in cash management, and in particular, strong debtor collections in the second half. The overall decline was driven by a \$57.0m operating cash flow impact from the new Royal Adelaide Hospital and \$22.6m of management redundancies, integration costs and contract rationalisation exit costs. Excluding the impact of these items, operating cash flows demonstrated strong improvement over the prior period.

Total capital expenditure reduced by \$14.4m / 15.6% reflecting continued improvement in capital expenditure control across both Facility Services and Laundries.

Directors' Report (continued)

Balance Sheet

Key Balance Sheet Metrics	2018 \$m	2017 \$m	Change %
Current Assets	529.1	522.0	1.4
Non-current Assets	1,347.0	1,390.0	(3.1)
- Goodwill	744.8	753.4	(1.1)
- P,P&E and Other	602.2	636.6	(5.4)
Current Liabilities	521.1	1,346.5	(61.3)
Non-current Liabilities	930.9	144.7	>100
Net current Assets	8.0	(824.5)	>100
Net Assets	424.1	420.8	0.8
Net Debt	735.4	782.3	(6.0)

Balance sheet movements were significantly impacted by the Laundries goodwill impairment, continued implementation of the contract rationalisation program, revisions in estimates, and the impact of the acquired laundry in Victoria.

The decrease in current liabilities and consequential increase in non-current liabilities reflects the refinance of the Group's debt facilities during the year (detailed below) resulting in all debt being classified as non-current at 30 June 2018.

Debt Management and Liquidity

	2018	2017
Net Leverage Ratio ¹	2.8x	2.9x
Interest Cover Ratio ¹	7.5x	7.3x
Weighted Average Committed Debt Facility Maturity	3.2	1.9

¹ Includes allowable adjustments to EBITDA for the purpose of debt covenant metrics.

Net debt decreased by \$46.9m from June 2017 despite the acquisition of a new laundry in Victoria, the impact of the new Royal Adelaide Hospital mobilisation and payments in relation to takeover costs, contract rationalisation and restructuring costs.

The key drivers of the decrease were:

- improved capital management; and
- no final dividend or interim declared or paid for FY17 and FY18 respectively.

The Group's borrowing facilities require compliance with a Net Leverage Ratio and Interest Cover Ratio. Both metrics are within the Group's financial covenant requirements.

The Group has committed debt facilities of \$1,047.6m of which \$817.6m is drawn at 30 June 2018.

Directors' Report (continued)

Reconciliation of Statutory Results to Operating Segments Results

Year ended 30 June 2018	2018 \$m	2017 \$m
Facility Services Revenue	2,842.2	2,782.1
Laundries Revenue	271.2	276.2
Inter-segment Revenue	(68.8)	(52.0)
Statutory Sales Revenue	3,044.6	3,006.3
Facility Services EBITDA	160.4	(64.1)
Laundries EBITDA	10.8	(64.5)
Unallocated Corporate Overheads EBITDA	(39.7)	(70.6)
Statutory EBITDA	131.5	(199.2)
Facility Services Depreciation	(39.3)	(39.3)
Laundries Depreciation	(43.8)	(52.6)
Unallocated Corporate Overheads Depreciation	(6.5)	(3.6)
Statutory Depreciation	(89.6)	(95.5)
Facility Services EBITA	121.1	(103.4)
Laundries EBITA	(33.0)	(117.1)
Unallocated Corporate Overheads EBITA	(46.2)	(74.2)
Statutory EBITA	41.9	(294.7)

Outlook

Spotless has leading or strong market positions in all the sectors in which it operates and continues to win new work in its core markets as well as renew and extend existing contracts.

Downer's 87.8% ownership of Spotless has strengthened the Group, including its balance sheet and cash flow performance.

The relationship with Downer has also created numerous joint bidding and market development opportunities that will deliver value over the short to medium term.

Directors' Report (continued)

Defined Terms

Spotless' financial statements for the year ended 30 June 2018 have been prepared in accordance with Australian Accounting Standards.

Spotless uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are referred to as non-IFRS financial measures and are intended to supplement the measures calculated in accordance with Australian Accounting Standards and not be a substitute for those measures.

Non-IFRS and pro forma measures have not been subject to audit.

The principal non-IFRS financial measures used in this report are described below:

Glossary

EBIT	Earnings before interest and tax.
EBITA	Earnings before interest, tax and total amortisation.
EBITDA	Earnings before interest, tax, depreciation and total amortisation.
Free Cash Flow	Net cash flows from operating activities plus net cash flows from investing activities.
Interest Cover Ratio	Measured as EBITDA divided by net cash interest expense (as defined in the Group's debt facility agreements).
Net Debt	Measured as the sum of current and non-current borrowings less cash and cash equivalents.
Net Leverage Ratio	Measured as Net Debt divided by EBITDA (as defined in the Group's financing facilities).

Significant changes in state of affairs

Other than as disclosed, there has not been any significant change in the state of the affairs of the Group during the financial year.

Significant events subsequent to balance date

There has not been any other matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Likely developments

Details of developments in the operations of the Group in future financial years and the expected results of those operations are disclosed in the Operating and Financial Review on pages 7 to 13.

Dividends

The Directors have determined not to pay a final dividend for the year ended 30 June 2018.

No dividends were paid or declared during the financial year or up until the date of this report.

Share options

No share options and rights were granted to senior executives of the Group during the year ended 30 June 2018.

Directors' Report (continued)

Share issues

On 4 July 2017, 2,131,487 ordinary shares were issued as a result of the exercise of rights under the Spotless Executive Incentive Plan. On 13 July 2017, 1,704,432 ordinary shares were issued as a result of the exercise of options under the Spotless Executive Incentive Plan.

Environmental Regulation

The Group has processes in place to ensure that it is aware of and, at a minimum, meets the intent of environmental legislation and regulations. It further has established programs to improve environmental performance (e.g. Laundry water reuse and heat exchange) which contributes to business effectiveness as well as providing socially responsible outcomes.

Indemnification of Officers

The Group's Constitution allows the Group to indemnify Directors and Officers against liability which results from their serving as a Director or Officer of the Group, subject to certain conditions.

During the year ended 30 June 2018, the Group paid a premium for insurance covering all Directors and Officers of the Group. The events covered by this policy are in respect of amounts that the Director or Officer has become legally obliged to pay resulting from claims made during the policy period for loss caused or alleged to be caused by a wrongful act committed by a Director or Officer while acting in that capacity. The contract of insurance prohibits the disclosure of the terms, the nature, the limit of liability and the amount of the premium, except where disclosure is required by law.

The Group and its Directors have entered into a deed of indemnity, insurance and access. The Executive Officers of the Group are also entitled to the benefits of the deed.

No amount has been paid pursuant to those indemnities in the year ended 30 June 2018 or since that date to the date of this report.

Indemnification of auditors

To the extent permitted by law, the Group has agreed to indemnify its auditors, KPMG Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify KPMG during or since the financial year.

Auditor's independence declaration

The auditor's independence declaration is included on page 86.

Non-audit services

KPMG, the external auditor to the Group, provided non-audit services to the Group during the year ended 30 June 2018. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

KPMG received or are due to receive \$595,000 for the provision of non-audit services to the Group. Amounts paid or payable by the Group for audit and non-audit services are disclosed in Note 27 to the financial report.

Proceedings brought on behalf of Spotless Group Holdings Limited

The Corporations Act allows members and other specified persons to bring actions on behalf of the Group. There have been no proceedings or applications brought on behalf of the Group pursuant to section 237 of the *Corporations Act 2001*.

Rounding

Spotless Group Holdings Limited is a company of the kind referred to in ASIC Class Order 2016/191, and in accordance with that Class Order amounts in the Directors' report and the financial report have been rounded to the nearest hundred thousand dollars, unless otherwise indicated.

Directors' Report (continued)

Remuneration Report

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the Remuneration Report for the year ended 30 June 2018.

Year in review

FY18 saw a focus on the integration with the Downer Group and the continued execution of the previously announced Strategy Reset, focusing on accelerating organic growth by growing long-term, multi-service, expandable contracts.

Key highlights for the financial year include:

- Statutory sales revenue increased by 1.3% reflecting a full year of revenue from newly mobilised PPP contracts, the contribution from the newly acquired Cabrini Laundry and increased project works across the group;
- EBIT and EBITDA margins showed significant improvement from the comparative period;
- Operating cash flows showed strong improvement over the prior period when excluding the impact of nRAH, management redundancies and Strategy Reset costs;
- Reduction in net debt levels from June 2017 reflecting improved capital management; and
- Successful refinancing of the majority of Spotless' debt facilities.

The results were also significantly impacted by several individually significant items primarily relating to the goodwill impairment, contract rationalisation and restructure costs, management redundancies and integration costs and other one-off balance sheet adjustments.



John Humphrey,
Chairman of the People and Remuneration Committee

Directors' Report (continued)

Remuneration Report (Audited)

This Remuneration Report sets out the policy, framework and outcomes for the remuneration of Key Management Personnel ("KMP") of Spotless Group Holdings Limited (the "Company") and the entities it controls (collectively referred to in this report as the "Group" or "Spotless") in accordance with the requirements of the Corporations Act 2001 (the "Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

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1 Key Management Personnel

For the purposes of this report, KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise).

The table below outlines the KMP at any time during the financial year. Unless otherwise indicated, each individual was a KMP for the entire year.

Table 1: KMP

Non-Executive Directors ¹		Position
Professor John Humphrey	Chairman	Appointed 24 August 2017
	Non-Executive Director	Appointed 19 July 2017
Grant Thorne	Non-Executive Director	Appointed 19 July 2017
Michael Ferguson	Non-Executive Director	Appointed 19 July 2017
Grant Fenn	Non-Executive Director	Appointed 1 December 2017
Garry Hounsell	Chairman	Retired 31 August 2017
Diane Grady AM	Non-Executive Director	Retired 19 July 2017
The Hon Nick Sherry	Non-Executive Director	Retired 19 July 2017
Julie Coates	Non-Executive Director	Retired 19 July 2017
Simon McKeon AO	Non-Executive Director	Full year
Philip Garling	Non-Executive Director	Appointed 19 July 2017 Resigned 1 December 2017
Executive Directors ²		Position
Martin Sheppard	Chief Executive Officer and Managing Director	Until 22 August 2017
Dana Nelson ²	Chief Executive Officer and Managing Director	From 22 August 2017

¹ Effective 19 July 2017, changes were made to the Board to reflect Downer's majority ownership interest. Downer nominated Philip Garling, Grant Thorne, Michael Ferguson and John Humphrey as Spotless Directors.

² Dana Nelson was group COO prior to her appointment as Chief Executive Officer & Managing Director on 22 August 2017.

Directors' Report (continued)

1 Key Management Personnel (continued)

Table 1: KMP (continued)

Other KMP ²	Position	
Nigel Chadwick	Chief Financial Officer	Until 31 August 2017
Paul Mahoney	Chief Financial Officer	From 1 September 2017 to 31 March 2018
Chris Storey	Chief Financial Officer	From 1 April 2018

2 Remuneration Governance

2.1 Role of the People and Remuneration Committee

The Board has established the People and Remuneration Committee (the "Committee") to:

- Review and make recommendations to the Board with respect to the Group's human resources policies and obligations;
- Make recommendations to the Board on remuneration packages and policies related to Directors and Senior Management; and
- Ensure that the remuneration policies and practices are consistent with the Group's strategic goals.

The Committee is comprised of John Humphrey, Simon McKeon AO and Grant Thorne.

Further information on the role of the Committee and meetings held throughout the year are set out in the Corporate Governance Statement and page 6 of the Directors' Report.

2.2 External Advisors and Remuneration Advice

In performing their roles, the Board and the Committee directly commission and receive information and services from independent external advisors on various remuneration related matters. During the financial year ended 30 June 2018, the Group engaged independent remuneration consultants to provide insights on remuneration trends, regulatory updates, market practices and market data in relation to the remuneration of KMP. This engagement did not extend to the provision of remuneration recommendations.

3 Company Performance

No remuneration recommendations as defined in section 9B of the Corporations Act 2001 were obtained during the financial year ended 30 June 2018.

The table below provides a snapshot of the Group's performance over FY18. Metrics for previous financial years, during which Spotless was listed, are provided for comparison. The link between the Group's performance and LTI outcomes is considered in the table below.

Table 2: Key Performance Indicators for FY18 compared to FY17 - FY14

	Share performance (\$)				Earnings performance (\$)			Liquidity	
	Closing price (A\$)	Dividend (cents)	TSR (%)	EPS (cents)	Statutory EBITDA (\$m)	Statutory EBIT (\$m)	Statutory NPAT (\$m)	Net cash provided by operating activities (\$m)	Gearing (%)
FY18	1.11	-	N/A	(0.2)	131.5	26.1	(2.3)	136.0	63.4
FY17	1.15	1.35	9.8	(31.6)	(199.2)	(310.9)	(347.4)	190.6	65.0
FY16	1.12	8.5	(44.0)	11.1	311.6	207.8	122.2	141.7	48.8
FY15	2.09	10.0	28.9	13.0	316.4	238.0	142.8	247.0	41.0
FY14	1.65	23.5	3.1	(5.1)	185.9	122.0	(34.7)	(14.3)	42.3

Directors' Report (continued)

4 Remuneration Principles and Strategy

The remuneration strategy for executive KMP seeks to ensure that executive rewards attract and retain talent and deliver alignment with shareholder objectives.

The remuneration strategy is based on the following remuneration principles ("Remuneration Principles"):

- Attract and retain high calibre executives by providing market competitive remuneration arrangements;
- Drive a performance based culture through the use of variable pay;
- Focus executives on achieving key business outcomes and displaying the Spotless values and behaviours; and
- Provide rewards that reflect individual contribution to sustainable shareholder value creation, including a mix of financial and non-financial outcomes.

Directors' Report (continued)

5 Executive Remuneration

5.1 Executive Remuneration Framework and Link to Strategy

Remuneration Structure	
Fixed Annual Remuneration (FAR)	"At-risk" remuneration Short term incentive (STI) Long term incentive (LTI)
Base salary, superannuation and other non-cash benefits.	<p>Awarded for the achievement of performance criteria measured over a one year period for the STI and a three year period for the LTI.</p> <p>Following the takeover by the Downer Group, for 2018, it was considered inappropriate to deliver incentive payments in the form of equity and grant performance rights under the LTI, which was based on EPS and TSR performance hurdles, due to the low level of free float shares in Spotless and lack of trading liquidity.</p> <p>Accordingly, for 2018 only, the maximum value of the STI was increased from 100% to 150% of fixed remuneration and STI deferral was introduced.</p> <p>The STI will be delivered in the form of cash. 50% of the award is paid in cash at the time of award with the remaining 50% deferred over two years with the first tranche of 25% vesting one year following award and the second tranche of 25% vesting two years following award.</p> <p>The Board will give consideration to a longer term approach for 2019.</p>
Link to Remuneration Strategy	
Attract and retain high calibre executives by providing a market competitive remuneration arrangement.	<p>Focus on driving financial and non-financial Key Performance Indicators in the short term.</p> <p>The extended STI enablers focus on long-term growth by ensuring retention.</p>
Link to Performance	
<p>FAR is not performance related. It is set with regard to experience, qualifications, responsibility, complexity, and criticality of the role.</p> <p>FAR is benchmarked against Spotless' peer companies. The benchmarking peer group was adjusted in FY17 with regard for Spotless' current market capitalisation, assets, revenue, and other key metrics. The group primarily comprises Industrials, Consumer Discretionary, Consumer Staples and Health Care Equipment & Services sectors companies.</p>	<p>Performance measures for FY18 STI were as follows:</p> <ul style="list-style-type: none"> Spotless NPAT (30%) Spotless Revenue (10%) Free Cash Flow (30%) Safety (RIFR) (20%) People (Talent & Succession) (10%)
Link to Company Strategy	
Fixed remuneration provides a market competitive opportunity for driving the day-to-day Spotless business.	<p>The FY18 STI was weighted strongly toward key financial metrics that were viewed by the Board as critical focus areas.</p> <p>The NPAT outcome aligns with our focus on sustainable growth. While we build for profitable growth, the Revenue measure ensures we stay focussed on the important revenue stream of the business.</p> <p>A focus on cash ensures that the business is efficient in the management of working capital and capital expenditure.</p> <p>The safety measure reflects our continued focus on the safety of our people and the importance of safety in delivery of services to our customers.</p> <p>The people measure is focussed on talent and succession to ensure we have a planned pipeline of capability to support the business delivering its strategy.</p>

Directors' Report (continued)

5 Executive Remuneration (continued)

5.2 Fixed Annual Remuneration

Table 3: KMP Fixed Annual Remuneration






KMP	FAR \$	STI TARGET %
Dana Nelson CEO	\$1,100,000	150% ³
Chris Storey CFO ⁴	\$500,000	50%

5.3 Incentive Outcomes

5.3.1 STI Outcomes

The STI outcomes for the year ended 30 June 2018 are set out below. The STI assessment criteria was based on the financial performance measures (Group Revenue and Group NPAT) as well as specific non-financial performance measures of Safety (LTIFR) and the implementation of a refreshed Group Strategic Plan that has been approved by the Board.

Table 4: Performance against STI Measures

Measure	Weighting	Outcome	Explanation
Group Revenue	10%		Group revenue target met at target.
Group NPAT	30%		The NPAT result reflects exceptional items taken into account and impact of revisions to accounting estimates.
Free Cash Flow	30%		Threshold achieved following significant focus on cash management.
Safety (RIFR)	20%		Focused attention on ensuring we reduce the number of injuries in our workplace resulted in exceeding our RIFR target of 4.3.
People	10%		Our Talent and Succession KPI was built on identification of succession and reducing turnover in high potential talent. We minimised regrettable turnover to below 5%.





Threshold not met  Threshold met or exceeded  Target met or exceeded  Maximum achieved 

Table 5: STI Vesting Outcomes

KMP	Target STI opportunity	Cash STI awarded in respect of current year (\$)	Deferred STI awarded in respect of current year (\$)	Maximum STI Awarded (%)
Dana Nelson CEO	150% ³	506,237	506,236	61.0
Martin Sheppard CEO ⁵	N/A	N/A	N/A	N/A
Nigel Chadwick CFO ⁶	N/A	N/A	N/A	N/A
Paul Mahoney CFO ⁷	50%	212,917	-	73.0
Chris Storey CFO	N/A	N/A	N/A	N/A

³ For 2018 only, the maximum value of the STI was increased from 100% to 150% of fixed remuneration. 50% of the award is paid in cash at the time of award with the remaining 50% deferred over two years with the first tranche of 25% vesting one year following award and the second tranche of 25% vesting two years following award.

⁴ While in the role, Nigel Chadwick's FAR was \$750,000 and Paul Mahoney's FAR was \$500,000.

⁵ Martin Sheppard ceased employment on 22 August 2017 and therefore is not eligible for an STI payment.

⁶ Nigel Chadwick ceased employment on 31 August 2017 and therefore is not eligible for an STI payment.

⁷ Pro-rated for the period that he was CFO.

Directors' Report (continued)

5 Executive Remuneration (continued)

5.3 Incentive Outcomes (continued)

5.3.1 LTI Outcomes

No awards were granted or vested under the LTI plan in FY18.

5.4 General Incentive Plan Governance

Table 6: Additional Terms of STI

Clawback	If the Board becomes aware of a material misstatement in the Group's financial statements relating to a Vesting Period or some other event has occurred during the Vesting Period which, as a result, means the rights should not have vested, the Board may elect to claw back the benefit of that vesting.
Cessation of employment	<p>In the event an employee ceases employment (including through resignation), other than as a good leaver, unvested rights or deferred shares will lapse.</p> <p>Where an employee ceases employment as a good leaver (redundancy, retirement or as otherwise determined by the Board), the Board has a discretion to determine the treatment of unvested rights or deferred shares.</p>
Board discretion	Vesting Conditions may be reduced or waived in whole or in part at any time by the Board, subject to any necessary shareholder approval having been obtained.

6 Executive Employment Contracts

The remuneration and terms of the executive KMP are formalised in their employment agreements. Each of these employment agreements, which have no fixed terms provide for the payment of fixed and performance-based remuneration, superannuation and other benefits such as statutory leave entitlements.

The key terms of executive KMP contracts at 30 June 2018 were as follows:

KMP	Notice period
Dana Nelson	6 months
Chris Storey	3 months

The employment agreements may be terminated by the Group or by the executive by giving notice in writing of such termination or, alternatively in the Group's case, payment in lieu of notice.

The Group may terminate employment without notice or payment in lieu of notice for serious and wilful misconduct.

6.1 Resignation of the Chief Executive Officer & Managing Director

Martin Sheppard ceased employment with the Group effective 22 August 2017. As outlined in our FY17 remuneration report, upon termination of his employment, Martin Sheppard received the following, in accordance with his employment agreement:

- Payment in lieu of notice per contractual entitlement;
- Statutory severance payment; and
- Accrued leave entitlements.

Martin Sheppard did not receive any incentive payments in relation to FY18.

Directors' Report (continued)

7 Non-Executive Director Remuneration

7.1 Fees

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of those directors. The amount of aggregate remuneration and the fee structure is reviewed annually against fees paid to Non-Executive Directors of comparable companies. The Board considers advice from external consultants when undertaking the annual review process.

The total fees paid to all Non-Executive Directors must not exceed in aggregate in any financial year the amount fixed by the Company at the AGM. This amount has been fixed at \$2.0m per annum. The aggregate sum includes any special and additional remuneration for special exertions and additional services performed by a director as determined appropriate by the Board. The Board will not seek any increase to this aggregate sum at the 2018 AGM.

The remuneration of Non-Executive Directors consists of directors' fees and committee fees. The payment of additional fees for serving on a committee recognises the additional time commitment required by Non-Executive Directors who serve on sub-committees. The Chairman of the Board attends all committee meetings but does not receive any fees in addition to the Chairman's fees.

The following annual directors' fees currently apply. There was no increase in fees from FY17.

Table 7: Annual Directors' Fees

Directors' fees ⁶	Fees per annum (\$)
Chairman	450,000
Non-Executive Director	164,000
Additional Committee Fees	
Chairman of the Audit, Business Risk and Compliance Committee	40,000
Chairman of the People and Remuneration Committee	40,000
Member of Committee	10,000

All directors' fees are inclusive of superannuation. Non-Executive Directors do not receive retirement benefits, nor do they participate in any incentives.

⁶ Neither Grant Fenn nor Michael Ferguson receive Director's fees in connection with their role on the Spotless Board.

Directors' Report (continued)

8 Remuneration Disclosures

8.1 Remuneration of KMP

Table 8: Executive KMP Statutory Remuneration – Accounting

	Financial Year	Short Term Benefits \$					Long Term Benefits \$	Post Employment \$		Share Based Payments \$		Total \$	% of Rem
		Salary	Cash bonus payable in respect of current year	Deferred bonus payable	Other	Annual Leave	Long Service Leave	Superannuation	Termination Payments	Share Options	Shares		Performance Based
Executive Directors													
D Nelson ¹	2018	1,031,763	506,237	210,932	-	35,578	61,441	20,049	-	-	-	1,866,000	38%
	2017	716,551	203,250	-	125,000	16,837	32,308	19,616	-	620,900	-	1,734,462	48%
M Sheppard ²	2018	213,325	-	-	-	31,933	882	5,012	1,384,767	-	-	1,635,919	0%
	2017	1,265,601	355,680	-	-	65,036	6,342	19,616	-	3,045,526	-	4,757,801	71%
Other KMP													
C Storey ³	2018	119,988	58,483	-	-	9,965	1,976	5,012	-	-	-	195,424	30%
	2017	-	-	-	-	-	-	-	-	-	-	-	0%
P Mahoney ⁴	2018	279,970	212,917	-	-	21,598	1,997	10,024	-	-	-	526,506	40%
	2017	-	-	-	-	-	-	-	-	-	-	-	0%
N Chadwick ⁵	2018	121,659	-	-	-	25,174	584	5,012	417,459	-	-	569,888	0%
	2017	730,384	203,250	-	-	17,306	3,525	19,616	-	527,667	-	1,501,748	49%
Total	2018	1,766,705	777,637	210,932	-	124,248	66,880	45,109	1,802,226	-	-	4,793,737	21%
	2017	2,712,536	762,180	-	125,000	99,179	42,175	58,848	-	4,194,093	-	7,994,011	62%

1 D Nelson was group COO prior to her appointment as Chief Executive Officer & Managing Director on 22 August 2017

2 M Sheppard ceased to be a KMP on 22 August 2017

3 C Storey was appointed Chief Financial Officer on 1 April 2018

4 P Mahoney was Chief Financial Officer for the period 1 September 2017 to 31 March 2018

5 N Chadwick ceased to be a KMP on 31 August 2017

Table 9: Executive KMP Remuneration – Non-Statutory

The following table depicts actual cash settlement of short term benefits and post-employment payments received, together with notional values for vested share based payments by Executive KMP.

	Financial Year	Short Term Benefits \$				Long Term Benefits \$	Post Employment \$		Share Based Payments \$		Total \$	% of Rem
		Salary	Bonus ⁶	Other	Annual Leave	Long Service Leave	Superannuation	Termination Payments	Share Options	Shares		Performance Based
Executive Directors												
D Nelson ¹	2018	1,031,763	203,250	125,000	35,578	-	20,049	-	-	-	1,415,640	14%
	2017	716,551	109,037	125,000	16,837	-	19,616	-	401,163	46,730	1,434,934	39%
M Sheppard ²	2018	213,325	355,680	-	94,680	-	5,012	1,384,767	-	-	2,053,464	17%
	2017	1,265,601	319,814	-	65,036	-	19,616	-	1,845,279	137,063	3,652,409	63%
Other KMP												
C Storey ³	2018	119,988	-	-	9,965	-	5,012	-	-	-	134,965	0%
	2017	-	-	-	-	-	-	-	-	-	-	0%
P Mahoney ⁴	2018	279,970	-	-	21,598	-	10,024	-	-	-	311,592	0%
	2017	-	-	-	-	-	-	-	-	-	-	0%
N Chadwick ⁵	2018	121,659	203,250	-	5,097	-	5,012	417,459	-	-	752,477	27%
	2017	730,384	114,619	-	17,306	-	19,616	-	515,981	49,122	1,447,028	47%
Total	2018	1,766,705	762,180	125,000	166,918	-	45,109	1,802,226	-	-	4,668,138	16%
	2017	2,712,536	543,470	125,000	99,179	-	58,848	-	2,762,423	232,915	6,534,371	54%

1 D Nelson was group COO prior to her appointment as Chief Executive Officer & Managing Director on 22 August 2017

2 M Sheppard ceased to be a KMP on 22 August 2017

3 C Storey was appointed Chief Financial Officer on 1 April 2018

4 P Mahoney was Chief Financial Officer for the period 1 September 2017 to 31 March 2018

5 N Chadwick ceased to be a KMP on 31 August 2017

6 2018 amounts reflect the cash settlement of the 2017 STI outcomes. These amounts were paid during financial year 2018.

Directors' Report (continued)

8 Remuneration Disclosures (continued)

8.2 Remuneration of KMP (continued)

Table 10: Non-Executive Director Statutory Remuneration

	Financial Year	Short Term Benefits \$				Post Employment \$		Share Based Payments \$		Total \$	% of Rem
		Salary	Bonus	Non-Monetary	Other Payments	Superannuation	Termination Payments	Share Options	Shares		Performance Based
Non-Executive Directors											
J Humphrey ¹	2018	383,008	-	-	-	20,049	-	-	-	403,057	0%
	2017	-	-	-	-	-	-	-	-	-	0%
S McKeon ¹²	2018	191,728	-	-	48,762	18,937	-	-	-	259,427	0%
	2017	90,601	-	-	-	8,607	-	-	-	99,208	0%
G Thorne ²	2018	159,052	-	-	-	15,110	-	-	-	174,162	0%
	2017	-	-	-	-	-	-	-	-	-	0%
M Ferguson ³	2018	-	-	-	-	-	-	-	-	-	0%
	2017	-	-	-	-	-	-	-	-	-	0%
G Fenn ⁴	2018	-	-	-	-	-	-	-	-	-	0%
	2017	-	-	-	-	-	-	-	-	-	0%
G Hounsell ⁵	2018	71,659	-	-	-	5,012	-	-	-	76,671	0%
	2017	272,747	-	-	-	18,657	-	-	-	291,404	0%
D Grady ⁶	2018	8,871	-	-	-	1,475	-	-	-	10,346	0%
	2017	186,301	-	-	-	17,699	-	-	-	204,000	0%
N Sherry ⁷	2018	8,002	-	-	-	1,330	-	-	-	9,332	0%
	2017	168,036	-	-	-	15,963	-	-	-	183,999	0%
J Coates ⁸	2018	7,567	-	-	-	1,258	-	-	-	8,825	0%
	2017	152,253	-	-	-	14,464	-	-	-	166,717	0%
P Garling ⁹	2018	61,697	-	-	-	5,861	-	-	-	67,558	0%
	2017	-	-	-	-	-	-	-	-	-	0%
M Jackson ¹⁰	2018	-	-	-	-	-	-	-	-	-	0%
	2017	314,923	-	-	-	14,711	-	-	-	329,634	0%
R Koczkar ¹¹	2018	-	-	-	-	-	-	-	-	-	0%
	2017	39,726	-	-	-	7,547	-	-	-	47,273	0%
Total	2018	891,584	-	-	48,762	69,032	-	-	-	1,009,378	0%
	2017	1,224,587	-	-	-	97,648	-	-	-	1,322,235	0%

1 J Humphrey commenced as a KMP on 19 July 2017

2 G Thorne commenced as a KMP on 19 July 2017

3 M Ferguson commenced as a KMP on 19 July 2017

4 G Fenn commenced as a KMP on 1 December 2017

5 G Hounsell ceased to be a KMP on 31 August 2017

6 D Grady ceased to be a KMP on 19 July 2017

7 N Sherry ceased to be a KMP on 19 July 2017

8 J Coates ceased to be a KMP on 19 July 2017

9 P Garling commenced as a KMP on 19 July 2017 and ceased as a KMP on 1 December 2017

10 M Jackson ceased to be a KMP on 22 February 2017

11 R Koczkar ceased to be a KMP on 30 September 2016

12 2018 bonus reflects recognition of leadership on the Board sub-committee relating to the Downer takeover in 2017

Directors' Report (continued)

9 Other Statutory Disclosures

9.1 Shareholdings of KMP

Table 11: KMP Shareholdings

	Shares at beginning of the year	Granted as remuneration	On exercise of rights or options	Net other changes	Shares held at the end of the year
Non-Executive Directors					
S McKeon	500,000	-	-	300,000	800,000
G Hounsell ¹	400,000	-	-	-	N/A
D Grady ²	170,281	-	-	-	N/A
N Sherry ³	124,625	-	-	-	N/A
J Coates ⁴	100,000	-	-	-	N/A
Executive Directors					
D Nelson	634,377	-	348,838	(983,215)	-
M Sheppard ⁵	417,939	-	346,120	-	N/A
Other KMP					
N Chadwick ⁶	145,695	-	99,842	-	N/A
Total	2,492,917	-	794,800	(683,215)	800,000

1 G Hounsell ceased to be a KMP on 31 August 2017

2 D Grady ceased to be a KMP on 19 July 2017

3 N Sherry ceased to be a KMP on 19 July 2017

4 J Coates ceased to be a KMP on 19 July 2017

5 M Sheppard ceased to be a KMP on 22 August 2017

6 N Chadwick ceased to be a KMP on 31 August 2017

9.2 Other Transactions and Balances with KMP and their Related Parties

Certain Directors of the Company are also directors and/or executives of the ultimate parent entity whose subsidiaries transact with the Group in the ordinary course of business in accordance with business protocols agreed between the two Groups. Details of transactions and balances with related parties are included in Note 24 of the financial statements.

9.3 Directors' Interests in Contracts

Some Directors of the Group, or related entities of the Directors, conduct transactions with entities within the Group that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the Director or Director-related entity on normal commercial terms and conditions.

On behalf of the Board of Directors



J Humphrey
Chairman
Melbourne, 16 August 2018



D Nelson
Chief Executive Officer and Managing Director
Melbourne, 16 August 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018

		2018	2017
Continuing Operations	Note	\$m	\$m
Revenue	5	3,044.6	3,006.3
		3,044.6	3,006.3
Direct employee expenses		(1,091.4)	(1,125.7)
Subcontractor expenses		(1,033.9)	(921.6)
Cost of goods used		(488.3)	(480.6)
Occupancy costs		(24.3)	(29.7)
Catering rights		(50.2)	(53.6)
Other expenses	7	(225.0)	(594.3)
Profit / (Loss) before depreciation, amortisation, finance costs and income tax (EBITDA)		131.5	(199.2)
Depreciation and amortisation expense	6(a)	(105.4)	(111.7)
Profit / (Loss) before finance costs and income tax (EBIT)		26.1	(310.9)
Finance income	5	0.5	0.5
Finance expense	6(b)	(43.9)	(44.0)
Loss before income tax		(17.3)	(354.4)
Income tax benefit	9(a)	15.0	7.0
Loss for the year after tax		(2.3)	(347.4)
Other Comprehensive Income			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Foreign currency translation differences for foreign operations		4.2	0.1
Effective portion of changes in fair value of cash flow hedges		2.0	5.9
Income tax on effective portion of changes in fair value of cash flow hedges		(0.6)	(1.8)
Other comprehensive income for the year, net of income tax		5.6	4.2
Total comprehensive income / (loss) for the year		3.3	(343.2)
Total comprehensive income / (loss) attributable to equity holders of the parent entity		3.3	(343.2)
Loss attributable to equity holders of the parent entity		(2.3)	(347.4)
		2018	2017
Losses per share		cents	cents
Basic losses per share	8	(0.2)	(31.6)
Diluted losses per share	8	(0.2)	(31.6)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Financial Position
as at 30 June 2018

		2018	2017
	Note	\$m	\$m
Current assets			
Cash and cash equivalents	13(a)	91.2	66.0
Trade and other receivables	10	395.1	412.7
Inventories		29.4	32.0
Prepayments		13.3	11.3
Other		0.1	-
Total current assets		529.1	522.0
Non-current assets			
Investments accounted for using the equity method		1.5	1.8
Trade and other receivables		89.8	78.2
Property, plant and equipment	16	269.3	281.2
Goodwill	22	744.8	753.4
Intangible assets	17	122.6	132.9
Deferred tax assets	9(c)	103.5	112.8
Other	18	15.5	29.7
Total non-current assets		1,347.0	1,390.0
Total assets		1,876.1	1,912.0
Current liabilities			
Trade and other payables	11	407.2	381.9
Borrowings	14(a)	3.6	835.5
Current tax liabilities		4.5	7.2
Provisions	12	105.5	119.6
Derivatives at fair value	14(a)	0.3	2.3
Total current liabilities		521.1	1,346.5
Non-current liabilities			
Borrowings	14(a)	823.0	12.8
Deferred tax liabilities	9(d)	47.8	75.7
Provisions	12	59.0	44.5
Derivatives at fair value	14(a)	0.1	-
Other		1.0	11.7
Total non-current liabilities		930.9	144.7
Total liabilities		1,452.0	1,491.2
Net assets		424.1	420.8
Equity			
Issued capital	15	993.8	993.8
Reserves		8.9	3.3
Accumulated losses		(578.6)	(576.3)
Total equity	14(a)	424.1	420.8

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity for the year ended 30 June 2018

Consolidated \$m							
Attributable to equity holders of the parent							
	Issued Capital	Foreign Currency Translation Reserve	Debt Hedging Reserve	Investment Revaluation Reserve	Share Based Payment Reserve	Accumulated Losses	Total
At 1 July 2016	993.8	(7.9)	(5.7)	(0.6)	6.9	(159.2)	827.3
Loss for the year	-	-	-	-	-	(347.4)	(347.4)
<i>Other comprehensive income</i>							
Currency translation differences	-	0.1	-	-	-	-	0.1
Movement in cash flow hedges	-	-	5.9	-	-	-	5.9
Tax effect of movements	-	-	(1.8)	-	-	-	(1.8)
Total other comprehensive income	-	0.1	4.1	-	-	-	4.2
Total comprehensive income/(loss)	-	0.1	4.1	-	-	(347.4)	(343.2)
Dividends paid	-	-	-	-	-	(69.7)	(69.7)
Recognition of share based payments	-	-	-	-	6.4	-	6.4
At 30 June 2017	993.8	(7.8)	(1.6)	(0.6)	13.3	(576.3)	420.8
At 1 July 2017	993.8	(7.8)	(1.6)	(0.6)	13.3	(576.3)	420.8
Loss for the year	-	-	-	-	-	(2.3)	(2.3)
<i>Other comprehensive income</i>							
Currency translation differences	-	4.2	-	-	-	-	4.2
Movement in cash flow hedges	-	-	2.0	-	-	-	2.0
Tax effect of movements	-	-	(0.6)	-	-	-	(0.6)
Total other comprehensive income	-	4.2	1.4	-	-	-	5.6
Total comprehensive income/(loss)	-	4.2	1.4	-	-	(2.3)	3.3
At 30 June 2018 (i)	993.8	(3.6)	(0.2)	(0.6)	13.3	(578.6)	424.1

The accompanying notes form an integral part of these financial statements.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(i) Total number of fully paid ordinary shares on issue at 30 June 2018 was 1,102,239,882 (2017: 1,098,403,963). During the year, 3,835,919 ordinary shares were issued as a result of the exercise of options and rights under the Spotless Executive Incentive Plan (2017: 113,785).

Consolidated Cash Flow Statement for the year ended 30 June 2018

	Note	Inflows/(Outflows)	
		2018 \$m	2017 \$m
Cash flows from operating activities			
Receipts from customers		3,373.7	3,324.5
Payments to suppliers and employees		(3,198.3)	(3,089.3)
Interest received		0.5	0.5
Interest and other costs of finance paid		(36.3)	(37.4)
Income tax paid		(3.6)	(7.7)
Net cash provided by operating activities	13(b)	136.0	190.6
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		4.7	11.6
Payment for property, plant, equipment and capitalised contract costs		(77.8)	(92.2)
Payment for acquisition of businesses	21	(20.0)	(23.9)
Proceeds from the sale of assets		4.5	10.4
Payment for intangible assets		(0.5)	(1.1)
Net cash used in investing activities		(89.1)	(95.2)
Cash flows from financing activities			
Proceeds from borrowings		1,073.5	160.0
Repayment of borrowings		(1,081.2)	(166.4)
Payment of finance lease liabilities		(8.2)	(8.0)
Dividends paid to members of the parent entity		-	(69.7)
Borrowing costs on re-financing		(5.6)	-
Net cash used in financing activities		(21.5)	(84.1)
Net increase in cash and cash equivalents		25.4	11.3
Cash and cash equivalents at the beginning of the year		66.0	54.3
Effects of exchange rate changes on the balance of cash held in foreign currencies		(0.2)	0.4
Cash and cash equivalents at the end of the year	13(a)	91.2	66.0

The accompanying notes form an integral part of these financial statements.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

The notes include additional information required to understand our financial statements that is material and relevant to the Group's operations, financial position and performance. The notes are organised into the following sections:

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SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

About This Report

1. Reporting Entity

Spotless Group Holdings Limited ("the Company") is a for-profit company incorporated and domiciled in Australia and limited by shares which are traded on the Australian Securities Exchange. The registered office of the Company is at 549 St Kilda Rd, Melbourne VIC 3004. These consolidated financial statements comprise the Company and its subsidiaries (collectively, the "Group").

2. Basis of Preparation

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, adopted by the Australian Accounting Standards Board ("AASB"), and the *Corporations Act 2001*. The financial statements of the Group comply with International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Accounting Standards Board ("IASB"). The financial statements were authorised for issue by the Directors on 16 August 2018.

The financial statements have been prepared on an historical cost basis, except for the revaluation of certain financial instruments and various assets and liabilities acquired as part of business combinations. Cost is based on the fair values of the consideration given in exchange for assets.

Certain comparative information in the financial statements has been reclassified to ensure consistency of presentation.

Unless noted otherwise, all amounts are presented in Australian dollars and all values are rounded to the nearest hundred thousand dollars, in accordance with ASIC Class Order 2016/191, dated 24 March 2016.

Critical Accounting Estimates

The Group makes estimates and assumptions concerning the future which may eventually differ from actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

Information on the estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year can be found in the followings notes:

Accounting estimates and assumptions

Note

Long-term contract revenue recognition	5	Revenue
Taxation	9	Income Tax
Environmental provisions	12	Provisions
Property make-good provisions	12	Provisions
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Estimation of useful lives and residual values of property, plant and equipment	16	Property, Plant and Equipment
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SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

3. Summary of Significant Accounting Policies

Where applicable, accounting policies are contained in the notes to the consolidated financial statements to which they relate to. Other critical accounting policies are set out below.

(a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company is exposed to, or has the rights to, variable returns from its involvement with an entity and can affect those returns through its power over the entity.

Subsidiaries

The results of subsidiaries acquired or disposed of during the year are included in the Statement of Profit or Loss and Other Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. In preparing the consolidated financial statements, all intercompany balances and transactions (including unrealised profits arising from intra-group transactions) are eliminated in full.

Joint ventures

Interests in jointly controlled entities in which the Group is a venturer (and so has joint control) are accounted for under the equity method in the consolidated financial statements.

(b) Foreign Currency

The presentation currency of the Group is Australian Dollars.

Foreign currency transactions, assets and liabilities are translated into Australian Dollars at reporting date using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Transactions	Date of the transaction
Monetary assets and liabilities	Reporting date
Non-monetary assets and liabilities measured at historical cost	Initial transaction date

Foreign subsidiaries have a functional currency other than Australian Dollars. On consolidation, the assets, liabilities, income and expenses of foreign operations are translated into Australian Dollars using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Income and expenses	Weighted average exchange rate or date of the transactions
Assets and liabilities	Reporting date

Foreign exchange differences resulting from translation are recognised in Other Comprehensive Income ("OCI") and accumulated in the foreign currency translation reserve.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

3. Summary of Significant Accounting Policies (continued)

(c) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

- (i) for receivables and payables which are recognised inclusive of GST; and
- (ii) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Consolidated Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(d) Borrowing Costs

Borrowing costs are capitalised where they relate to qualifying assets and are expensed over the asset's useful life.

(e) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, including the adoption of Standards and Interpretations that became effective from 1 January 2017 and 1 July 2017:

- AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112)'
- AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'

The adoption of these Standards and Interpretations did not have a significant impact on the consolidated financial statements.

Issued but not yet effective

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. At the date of authorisation of the financial report, the relevant Standards and Interpretations listed below were on issue but not yet effective.

The initial application of the following Standards and Interpretations is not expected to have a significant impact on the consolidated financial statements of the Group:

Title	Effective for annual reporting periods beginning on or after
AASB Interpretation 22 Foreign Currency Transactions and Advance Considerations	1 January 2018
AASB 1059 Service Concession Arrangements: Grantor	1 January 2019
AASB 2017-4 Amendments to Australian Accounting Standards 'Uncertainty over Income Tax Treatments'	1 January 2019
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2022

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

3. Summary of Significant Accounting Policies (continued)

(e) New Accounting Standards and Interpretations (continued)

The following standards are expected to have an impact on the Group's financial statements in the period of initial application.

Title	Effective for annual reporting periods beginning on or after
AASB 9 'Financial Instruments'	1 January 2018
AASB 15 'Revenue from Contracts with Customers'	1 January 2018
AASB 16 'Leases'	1 January 2019

(i) AASB 9 'Financial Instruments'

AASB 9 replaces AASB 139 Financial instruments: Recognition and Measurement and addresses the classification and measurement of financial assets and financial liabilities, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139. The Group has adopted AASB 9 from 1 July 2018 and has elected not to restate comparative information for prior periods.

Classification and measurement – financial assets and liabilities

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale, whilst the existing requirements for the classification of financial liabilities in AASB 139 is retained.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact.

Impairment

AASB 9 replaces the "incurred loss" model in AASB 139 with a forward looking "expected credit loss" (ECL) model. This requires considerable judgement over how changes in economic factors affect ECL, which is determined on a probability-weighted basis. There is consideration around the probability of default upon initial recognition and subsequent assessment as to whether there has been a significant increase in credit risk at each reporting period.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investment in equity instruments.

Under AASB 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: where there are ECLs that result from possible default events within the period of 12 months from the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for trade receivables as permitted by AASB 9.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

3. Summary of Significant Accounting Policies (continued)

(e) New Accounting Standards and Interpretations (continued)

(i) AASB 9 'Financial Instruments' (continued)

In general, the Group anticipates that the application of the expected credit loss model of AASB 9 will result in the earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items. Whilst the Group is finalising the impairment assessment utilising the simplified expected loss approach, it is anticipated that the impact on transition will not be material.

Hedge accounting

AASB 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. AASB 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

An assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of AASB 9.

Management do not anticipate that the application of AASB 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

(ii) AASB 15 'Revenue from Contracts with Customers'

AASB 15 changes the manner in which revenue is recognised and provides for a significant increase in the disclosure requirements for the business.

The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred rather than on transfer of risks and rewards.

During the current period, the Group made significant progress toward completing the evaluation of potential changes from adopting the new standard on future financial reporting and disclosures. The Group has completed material contract reviews and detailed policy drafting. The evaluation has included consultation between the Group Corporate Team, Divisional Management, Commercial and Group Legal functions. The implementation project is ongoing and therefore all amounts are current estimates which are subject to finalisation prior to final implementation.

The Group has adopted AASB 15 from 1 July 2018 using the cumulative approach method on initial application. This means that the cumulative impact of adoption is recognised in the opening retained earnings at 1 July 2018 with no restatement of comparatives.

Rendering of Services

Services revenue is primarily generated from the provision of contracted outsourced services including facility services, laundry and linen, technical and engineering and maintenance and asset management supplied to infrastructure assets and facilities across different sectors. The majority of service contracts have been determined to have one performance obligation which are significantly integrated or highly inter-related and are fulfilled over time and therefore there is no change to the current revenue recognition methodology.

Certain contracts that have also been determined to have one performance obligation under the new standard (largely comprising a number of Public Private Partnerships ("PPPs")) will incur a one-off adjustment on transition to the new standard as different revenue streams have been accounted for separately under the current accounting standards (detailed in table below).

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

3. Summary of Significant Accounting Policies (continued)

(e) New Accounting Standards and Interpretations (continued)

(ii) AASB 15 'Revenue from Contracts with Customers' (continued)

The new standard also provides a higher threshold for recognition of variations, claims and incentives where revenue from variations and claims can only be recognised to the extent it is highly probable that a significant reversal of revenue will not occur.

Construction Revenue

The contractual terms and the way in which the Group operates its construction contracts is predominantly derived from projects containing one performance obligation. Contracted revenue will continue to be recognised over time based on stage of completion of contract. As with services revenue the new standard provides higher thresholds for variable consideration, as well as accounting for claims and variations as contract modifications requiring enforceable customer approval.

The Group has identified the following differences between current accounting standards (AASB 118 Revenue and AASB 111 Construction Contracts) and AASB 15:

Description	
Contract claims and variations – now referred to as contract modifications	Current accounting Estimates of revenue include: <ul style="list-style-type: none">claims from customers where negotiations have reached an advanced stage and it is probable that the customer will accept the claim and the amount can be measure reliably; andvariations when it is probable that the customer will approve the variation and the amount can be measured reliably.
	Future accounting Revenue in relation to variations, such as a change in the scope of the contract, will only be included in the transaction price, when it is approved by the parties to the contract, the variation is enforceable, and the amount becomes highly probable. Variations will be recognised when client instruction has been received in line with customary business practice in the sector. Revenue in relation to claims, where the Group has an enforceable right between the parties, is only included in the transaction price when the amount claimable becomes highly probable. This is a higher threshold than is required by current accounting standards. In making this assessment, the Group considers a number of factors including nature of the claim, acceptance by the customer of the validity of the claim, stage of negotiations, legal opinion on the enforceability of the claim under the contract, or the historical outcome of similar claims to determine whether the "highly probable" threshold has been met. As a result of the change to a higher threshold of approval of claims or variations and highly probable for the estimation of the amount to be recognised as revenue, it is estimated that revenue recognised prior to 30 June 2018 will be deferred to later years resulting in a corresponding adjustment to opening retained earnings at 1 July 2018 of \$96.4 million after tax. Impact on transition The above adjustment includes claims and variations in relation to the new Royal Adelaide Hospital contract. Refer to Note 26 Commitments and Contingent Liabilities for further details.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

3. Summary of Significant Accounting Policies (continued)

(e) New Accounting Standards and Interpretations (continued)

(ii) AASB 15 'Revenue from Contracts with Customers' (continued)

Description	
Contract costs (Tender costs)	<p>Current accounting</p> <p>Costs incurred during the tender / bid process are capitalised within amounts due from customers under contracts when it is probable that the contract will be awarded. If the contracts are not subsequently awarded the amounts capitalised are expensed to profit or loss.</p> <p>Future accounting</p> <p>Costs incurred during the tender / bid process will be expensed, unless they are incremental to obtaining the contract and the Group expects to recover those costs or where they are explicitly recoverable from the customer regardless of whether the contract is obtained.</p> <p>Impact on transition</p> <p>Tender costs on contracts of \$0.5 million after tax currently capitalised will be required to be written off through opening retained earnings at 1 July 2018.</p>
Performance obligations and contract duration	<p>Current accounting</p> <p>Under AASB 111 Construction Contracts revenue is recognised over the stated term of the contract.</p> <p>Future accounting</p> <p>Revenue is allocated to each performance obligation and recognised as the performance obligation is satisfied which may be at a point in time or over time.</p> <p>AASB 15 requires a more granular approach to identify the different revenue streams (i.e. performance obligations) in a contract by identifying the different activities that are being undertaken and then aggregating only those where the different activities are significantly integrated or highly interdependent.</p> <p>AASB 15 provides guidance in respect of the term over which revenue may be recognised and is limited to the period for which the parties have enforceable rights and obligations. When the customer can terminate for convenience without a substantive penalty, the contract term and related revenue is limited to the termination period.</p> <p>Impact on transition</p> <p>The contract review performed by the Group identified some contracts with additional performance obligations. This is expected to result in an adjustment to reduce opening retained earnings at 1 July 2018 by \$7.6 million after tax.</p>

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

3. Summary of Significant Accounting Policies (continued)

(e) New Accounting Standards and Interpretations (continued)

(ii) AASB 15 'Revenue from Contracts with Customers' (continued)

	Description
Measure of progress	<p>Current accounting</p> <p>Contract revenue and contract costs are recognised as revenue and expenses by reference to the stage of completion of the contract at the end of the reporting period.</p> <p>Future accounting</p> <p>The Group will measure revenue using the measure of progress that best reflects the Group's performance in satisfying the performance obligation within the contracts over time. The different methods of measuring progress include an input method (e.g. costs incurred) or an output method (e.g. milestones reached). The same method of measuring progress will be consistently applied to similar performance obligations.</p> <p>Impact on transition</p> <p>No significant adjustment to opening retained earnings is expected as a result of this change.</p>
Variable consideration	<p>Current accounting</p> <p>Estimates of revenue include incentive payments such as payments for meeting certain performance criteria when it is probable that the criteria will be met and can be measured reliably. Liquidated damages or abatements that are probable and can be measured reliably are included in contract costs.</p> <p>Future accounting</p> <p>Variable consideration that is contingent on the Group's performance, including key performance payments, liquidated damages and abatements that offset revenue under the contract, are recognised such that only revenue that is highly probable, and that a reversal of that revenue will not occur, is recognised. This is a higher recognition threshold than the one required by the current accounting standards.</p> <p>In addition, where the identified revenue stream is determined to be a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (for example maintenance services); variable consideration is recognised in the period which the performance obligation subject to the variable consideration is completed, rather than being recognised according to the percentage of completion of the performance obligation.</p> <p>Impact on transition</p> <p>No significant adjustment to opening retained earnings is expected as a result of this change.</p>
Loss-making contracts	<p>Current accounting</p> <p>For contracts under the percentage of completion method, the expected loss on a contract is recognised immediately when it is probable that total contract costs will exceed total contract revenue.</p> <p>Future accounting</p> <p>These loss-making contracts will be recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets as onerous contracts.</p>

In summary, based on the current assessment, an adjustment of \$104.5 million after tax is expected to be recognised in opening retained earnings of the Group at 1 July 2018 on adoption of AASB 15.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

3. Summary of Significant Accounting Policies (continued)

(e) New Accounting Standards and Interpretations (continued)

(iii) AASB 16 'Leases'

AASB 16 will replace the current leasing standard AASB 117, and contains significant changes to the accounting treatment of leases around how to recognise, measure and disclose leases. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, with the exception of short-term (less than 12 months) and low value leases. AASB 16 applies to annual reporting periods beginning on or after 1 July 2019.

The Group manages its owned and leased assets to ensure there is an appropriate level of equipment to meet its current obligations. The decision as to whether to lease or purchase an asset is dependent on the finance available at the time and the residual risk of ownership following the anticipated completion of the contract.

To date, management has focused on the identification of the provisions of the standard which will most impact the Group and is in the process of determining whether any additional arrangements in excess of the current portfolio will be considered as a lease, together with a review of the lease contracts and financial reporting systems in place. As such, the Group has not yet quantified the effect of the new standard, however the following impacts are expected on implementation date:

- Total assets and total liabilities will increase due to the recognition of a "Right of Use Asset" and a "Lease Liability", grossing up the assets and liabilities in the Consolidated Statement of Financial Position;
- Interest expense will increase due to the effective interest rate implicit in the lease, where the interest expense component is higher on early years on the lease;
- Depreciation charge will increase as the right of use asset is recognised;
- Lease rental expenses will decrease due to the recognition of interest and depreciation noted above; and
- Operating cash flows will be higher as repayment of the principal portion of all lease liabilities will be classified as financing activities.

AASB 16 will be implemented retrospectively, either with the restatement of comparatives or with the cumulative impact of application recognised as at 1 July 2019 under the modified retrospective approach. The Group is in the process of assessing the available options for transition.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

Group Performance

This section provides information that is relevant to understanding the financial performance of the Group for the financial year, including the accounting policies applied and the critical accounting estimates and judgements.

4. Operating Segments

The Group's operating segments under AASB 8 *Operating Segments* are as follows, and are determined based on the nature of services provided to customers:

Facility Services: provides multi-faceted facilities management, cleaning, catering and food services to a wide range of industries across Australia and New Zealand.

Laundry Services: provides linen and uniform laundry services to a broad range of customers across Australia and New Zealand.

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

The segment result represents the profit earned by each segment excluding unallocated corporate administration costs, depreciation and amortisation, net finance costs and income tax benefit.

\$m	Facility Services	Laundries	Corporate / eliminations	Group
2018				
Sales Revenue	2,842.2	271.2	(68.8)	3,044.6
EBITDA	160.4	10.8	(39.7)	131.5
Depreciation	(39.3)	(43.8)	(6.5)	(89.6)
Amortisation	-	-	(15.8)	(15.8)
EBIT	121.1	(33.0)	(62.0)	26.1
Net finance costs	-	-	(43.4)	(43.4)
Profit / (Loss) before income tax	121.1	(33.0)	(105.4)	(17.3)
Income tax benefit	-	-	15.0	15.0
Profit / (Loss) for the year	121.1	(33.0)	(90.4)	(2.3)
Segment assets	1,284.8	286.0	305.3	1,876.1
Segment liabilities	406.1	114.2	931.7	1,452.0
2017				
Sales Revenue	2,782.1	276.2	(52.0)	3,006.3
EBITDA	(64.1)	(64.5)	(70.6)	(199.2)
Depreciation	(39.3)	(52.6)	(3.6)	(95.5)
Amortisation	-	-	(16.2)	(16.2)
EBIT	(103.4)	(117.1)	(90.4)	(310.9)
Net finance costs	-	-	(43.5)	(43.5)
Loss before income tax	(103.4)	(117.1)	(133.9)	(354.4)
Income tax benefit	-	-	7.0	7.0
Loss for the year	(103.4)	(117.1)	(126.9)	(347.4)
Segment assets	1,310.2	291.4	310.4	1,912.0
Segment liabilities	446.2	78.4	966.6	1,491.2

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

4. Operating Segments (continued)

Revenue from one of the Group's customers was approximately 11% (2017: 11%) of the total Group revenue during the year ended 30 June 2018. This customer operated within the Facility Services segment. No other single customer contributed 10% or more to the Group's revenue for both 2018 and 2017.

Geographic information

	2018 \$m	2017 \$m
Australia	2,652.7	2,601.3
New Zealand	391.9	405.0
Total revenue	3,044.6	3,006.3

The revenue information above is based on the location of the customer.

Non-current assets

Australia	1,057.1	1,086.4
New Zealand	79.6	81.1
Total non-current assets	1,136.7	1,167.5

Non-current assets for this purpose consist of property, plant and equipment, goodwill and intangible assets.

5. Revenue

Sales revenue:

	2018 \$m	2017 \$m
Rendering of services	2,728.6	2,673.5
Sale of goods	316.0	332.8
Revenue from operating activities	3,044.6	3,006.3

Interest income

Third party entities	0.5	0.5
	0.5	0.5

(a) Accounting Policies

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised if it meets the criteria below.

Rendering of services

The revenue from time and material contracts is recognised at contractual rates as labour hours are delivered and direct expenses incurred. Life cycle maintenance revenue is based on stage of completion using costs incurred. Where a loss is expected to occur it is recognised immediately.

Revenue from certain long term contracts is recognised using the stage of completion method. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are expected to be recoverable.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

5. Revenue (continued)

(a) Accounting Policies (continued)

Construction contracts

The Group enters into fixed price contracts. If the outcome of such a contract can be reliably measured, revenue associated with the construction contract is recognised by reference to the stage of completion of contract activity at year end (the "percentage of completion" method).

The outcome of a construction contract can be estimated reliably when:

- (i) the total contract revenue can be measured reliably;
- (ii) it is probable that the economic benefits associated with the contract will flow to the entity;
- (iii) the costs to complete the contract and the stage of completion can be measured reliably; and
- (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a construction contract cannot be estimated reliably (principally during a contract's early stages), contract revenue is recognised only to the extent that costs incurred are expected to be recoverable.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate. Actual completion rate is based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

- Contract revenue — initial amount of revenue agreed in the contract, plus any variations, claims and incentive payments to the extent that it is probable that they will result in revenue, and can be reliably measured.
- Contract costs — include costs that relate directly to the specific contract and costs that are attributable to contract activity and can be allocated to the contract. Costs that relate directly to a specific contract comprise labour costs; costs of materials used in construction; depreciation of equipment used on the contract; costs of design; and technical assistance.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer.

Interest income

Interest income is recognised on a time proportionate basis that takes into account the effective interest rate on the financial asset.

Dividend income

Dividend income is recognised when the Group's right to receive payment has been established.

(b) Critical Accounting Estimates

Long-term contract revenue recognition

The Group has a limited number of long-term maintenance contracts that are engaged in a suite of related services under the one contract. The Group distinguishes between these revenue streams with respect to revenue recognition. Planned maintenance services revenue is recognised based on services completed. Life cycle maintenance revenue is based on stage of completion using costs incurred. In recognising the revenue, the Group periodically re-forecasts the estimated total contract costs based on the different stage of completion of the contract.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

6. Expenses

(a) Depreciation and amortisation

	2018 \$m	2017 \$m
Property, plant and equipment (i)	38.4	39.1
Laundries rental stock (i)	33.4	40.1
Capitalised contract costs	17.8	16.3
Amortisation of identifiable intangible assets (ii)	15.8	16.2
Total depreciation and amortisation (vi)	105.4	111.7

(b) Finance expenses

Interest charged from third party entities	36.8	38.0
Other borrowing costs	3.6	1.6
Unwinding of discount on provisions (iii) (vi)	3.5	4.4
Total finance expenses	43.9	44.0

(c) Other items included in the profit and loss

Contract rationalisation and restructuring costs and other balance sheet adjustments (vi)	70.7	125.8
Goodwill impairment (vi)	40.0	315.7
Management redundancies and integration (vi)	9.4	-
Re-measurement of provisions	(6.2)	(17.2)
Operating lease expense (iv)	37.6	42.7
Employee expenses - superannuation defined contribution plans	77.3	79.6
Share based payment expense (v)	-	6.4

(i) Refer to Accounting Policy at Note 16

(iii) Refer to Accounting Policy at Note 12

(v) Refer to Accounting Policy at Note 25

(ii) Refer to Accounting Policy at Note 17

(iv) Refer to Accounting Policy at Note 19

(vi) Includes items disclosed in Note 7

(d) Accounting Policies

Capitalised contract costs

Capitalised contract costs are incurred during the set-up and initial establishment of new contracts. They are capitalised to Other non-current assets on the Statement of Financial Position. They are amortised to the Statement of Profit or Loss and Other Comprehensive Income over the contract period within depreciation expense.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

7. Individually Significant Items

The following material items are included within the Consolidated Statement of Profit or Loss and Other Comprehensive Income, and are relevant to an understanding of the Group's financial performance:

	EBITDA \$m	Depreciation and amortisation expense \$m	Interest expense \$m	Income tax expense \$m	Profit after income tax \$m
Year ended 30 June 2018					
Contract rationalisation and restructuring costs (i)	9.5	1.8	1.5	(3.7)	9.1
Goodwill impairment (ii)	40.0	-	-	-	40.0
Management redundancies & integration costs (iii)	9.4	-	3.3	(3.0)	9.7
Other balance sheet adjustments (iv)	61.2	8.7	-	(40.3)	29.6
Total individually significant items	120.1	10.5	4.8	(47.0)	88.4
Year ended 30 June 2017					
Contract rationalisation and restructuring costs (i)	125.8	8.9	1.2	(37.1)	98.8
Goodwill impairment (ii)	315.7	-	-	-	315.7
Total individually significant items	441.5	8.9	1.2	(37.1)	414.5

- (i) Contract rationalisation and restructuring costs largely relate to a review of the Group's current contract portfolio in line with its strategy outlined in 1H17. As a result, the Group has exited a number of contracts within its portfolio allowing the business to focus on investing in high-growth sectors and improving performance and profitability.
- (ii) Further details on goodwill impairment can be found in Note 22.
- (iii) Management redundancies and integration costs as a result of the Downer takeover.
- (iv) Other balance sheet adjustments are costs which comprise the write-off of work in progress in relation to the underperforming new Royal Adelaide Hospital contract, as well as the write-off of certain balance sheet items as a result of revisions in estimates.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

8. Loss per Share

Basic earnings / (loss) per share (EPS) is calculated by dividing the profit / (loss) for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit / (loss) attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of dilutive potential ordinary shares that would be issued if outstanding options were to be exercised.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2018 \$m	2017 \$m
Net loss attributable to the Group's ordinary equity holders used in calculating basic and diluted loss per share	(2.3)	(347.4)

	2018 '000	2017 '000
Weighted average number of shares (number):		
Weighted average number of ordinary shares for basic losses per share	1,102,240	1,098,404
Weighted average number of ordinary shares for diluted losses per share	1,102,240	1,100,535

9. Income Tax

(a) Income tax recognised in profit or loss

	2018 \$m	2017 \$m
Current tax expense	(0.3)	(18.7)
Deferred tax benefit	15.3	25.7
Income tax benefit	15.0	7.0

(b) Reconciliation of prima-facie tax on loss to income tax benefit

Loss before income tax	(17.3)	(354.4)
Income tax benefit calculated at 30%	5.2	106.3
<i>Items that increase / (decrease) tax benefit</i>		
Impairment of goodwill	(12.0)	(94.7)
Derecognition of prior year temporary difference	19.3	-
Effect of tax rates in foreign jurisdictions	0.2	-
Non-deductible expenses	(1.0)	(1.0)
Non-taxable gains	2.0	-
Share based payment	-	(1.9)
Other	1.3	(1.7)
	9.8	(99.3)
Income tax benefit from continuing operations	15.0	7.0
Income tax expense reported in other comprehensive income	(0.6)	(1.8)
Total income tax benefit	14.4	5.2

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. The Group is also subject to a tax rate in New Zealand of 28%.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

9. Income Tax (continued)

	2018	2017
	\$m	\$m
(c) Deferred tax assets		
<i>Arising from temporary differences</i>		
Employee compensation and benefits accrued	30.4	38.5
Other provisions	17.7	17.1
Transaction related costs	3.3	7.7
Property, plant and equipment	3.0	18.7
Trade and other payables	16.6	5.7
	71.0	87.7
<i>Arising from tax losses or offsets</i>		
Revenue losses	32.5	25.1
Deferred tax assets	103.5	112.8

The Australian group has recognised a \$32.5 million (2017: \$25.1 million) deferred tax asset at 30 June 2018 in respect of income tax losses. These continue to be carried on the Statement of Financial Position as the Directors believe it is probable that future taxable profits will be available against which the Group can utilise the benefits. These losses are also subject to satisfying the loss recoupment rules in the Income Tax Assessment Act 1997.

(d) Deferred tax liabilities

Arising from temporary differences

Property, plant and equipment	(6.5)	(5.8)
Intangible assets	(34.9)	(38.3)
Capitalised contract costs	(4.0)	(9.7)
Other	(2.4)	(21.9)
Deferred tax liabilities	(47.8)	(75.7)

(e) Income tax recognised directly in equity

The following current and deferred amounts were charged directly to equity during the year:

Deferred tax asset/liability

Debt hedging reserve	0.6	1.8
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SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

9. Income Tax (continued)

(f) Accounting Policies

Current tax

Current tax is the expected tax payable or recoverable on the taxable profit or loss for the period, using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Temporary differences are differences between an asset or liability's tax base, and its carrying value for financial reporting purposes. Deferred tax assets are recognised to the extent that it is probable future taxable profits will be available against which the asset can be utilised. However, deferred tax balances are not recognised in the following circumstances:

- if the temporary differences giving rise to them results from the initial recognition of assets and liabilities (in a transaction other than a business combination) which affects neither taxable nor accounting profit or loss; or
- if the temporary differences arises from initial goodwill recognition; or
- if the temporary differences relate to investments in subsidiaries and associates and interests in joint ventures, the Group is able to control the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Current and deferred tax for the year

Current and deferred tax for the year is recognised as an expense or income in the Consolidated Statement of Profit or Loss, except when it relates to items credited or debited directly to equity, in which case the current and deferred tax is also recognised directly in equity; or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or the excess of net assets over the purchase price.

Tax consolidation

Spotless Group Holdings Limited and its wholly owned Australian controlled entities have formed a tax consolidated group with effect from 3 April 2012. Spotless Group Holdings Limited is the head entity in the tax consolidated group. On 16 August 2012, the former Spotless Group Limited tax consolidated group joined the Spotless Group Holdings Limited tax consolidated group.

Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, each of the entities in the tax consolidated group has agreed to pay a tax equivalent to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group using the "separate taxpayer within group" approach.

Where the tax contribution amount recognised by each entity for a particular period is different to the aggregate of the current tax liability/asset and any deferred tax asset arising that period, the difference is recognised as a contribution from (or distribution to) equity participants.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

9. Income Tax (continued)

(f) Accounting Policies (continued)

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax consolidated group are recognised by the head entity.

The tax sharing agreement provides for the determination of the income tax liabilities allocation between the entities should the head entity default on its tax payment obligations, or if any entity should leave the tax consolidated group. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(g) Critical Accounting Estimates

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the nature and complexity of existing and terminated contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

The Australian group has recognised deferred tax assets for tax losses and deductible temporary differences to the extent that the Directors consider it is probable that sufficient future taxable income will be available to utilise them. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

Working Capital

This section provides information that is relevant to understanding the working capital position and performance of the Group for the financial year, including the accounting policies applied and the critical accounting estimates and assumptions. The Group defines Working Capital as the total of current trade and other receivables, inventory, prepayments, trade and other payables, current provisions and other current creditors.

10. Current Trade and Other Receivables

	2018	2017
	\$m	\$m
Trade receivables	392.8	411.5
Allowance for doubtful debts (i)	(1.6)	(2.5)
Other debtors	3.9	3.7
	395.1	412.7

(i) At 30 June 2018 there are no material individually impaired trade receivables included in the allowance for doubtful debts.

	2018	2017
	\$m	\$m
<i>Movement in the allowance for doubtful debts</i>		
Balance at start of the year	(2.5)	(3.6)
Amounts written off during the year	1.2	3.2
Increase in allowance recognised in profit or loss	(0.3)	(2.1)
Balance at end of the year	(1.6)	(2.5)
<i>Ageing of past due (ii) (iii)</i>		
30 - 60 days	3.5	3.4
60 - 90 days	1.4	1.8
+90 days	5.0	5.5
Total	9.9	10.7

(ii) Included in the trade receivables balance are debtors with a carrying amount of \$8.3 million (2017: \$8.2 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

(iii) The Group's standard Terms and Conditions allows for interest to be charged on overdue debts.

The Group's credit policy requires customers to pay in accordance with agreed credit terms, which are generally 30 days from the date of invoice. The concentration of credit risk is limited due to the customer base being large and unrelated. The Group generally trades only with recognised creditworthy third parties, and therefore collateral is not requested.

The following basis is used to assess the allowance for doubtful debts:

- individual assessment by account based on past credit history and those receivables greater than 90 days to determine whether there is objective evidence that an individual trade receivable is impaired;
- prior knowledge of debtor insolvency or other credit risk; and
- a statistical approach to determine the historical default rate to develop an estimate of irrevocable amounts.

Collectability of receivables is monitored continuously and allowance for doubtful debts is used for receivables considered being in dispute or if there is uncertainty regarding collection. A receivable is written off when it is considered non-recoverable and all collection efforts have been exhausted.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

11. Current Trade and Other Payables

	2018	2017
	\$m	\$m
Trade payables (i)	393.1	365.5
Goods and Services Tax payable	14.1	16.4
	407.2	381.9

(i) Credit periods range from 1 day prompt payment to 75 days. The average credit period is 45 days. Interest has not been incurred on any outstanding balances.

(a) Accounting Policy

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within the credit timeframe.

12. Provisions

	2018		2017	
	Current	Non-current	Current	Non-current
	\$m	\$m	\$m	\$m
Employee benefits (i)	91.2	10.0	95.1	9.8
Public liability	2.7	-	2.9	-
Environmental remediation	2.9	8.0	4.2	7.7
Property make-good	5.2	3.6	6.9	6.5
Onerous contracts	3.5	37.4	10.5	20.5
	105.5	59.0	119.6	44.5

(i) The current provision for employee benefits includes \$35.1 million (2017: \$34.7 million) of vested long service leave entitlements.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

12. Provisions (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of provision, other than employee benefits, are set out below:

	Public liability \$m	Environmental remediation \$m	Property make-good \$m	Onerous contracts \$m
Balance at 30 June 2016	4.2	10.3	15.8	22.1
Assumed in a business combination	-	-	0.3	2.7
Increased during the year (i)	3.5	2.0	1.3	20.0
Utilised during the year	(3.1)	(1.8)	(0.7)	(12.2)
Written back during the year (i)	(1.7)	-	(4.2)	(3.7)
Unwind of discount during the year (i)	-	1.4	0.9	2.1
Balance at 30 June 2017	2.9	11.9	13.4	31.0
Assumed in a business combination	-	0.3	-	22.8
Increased during the year (i)	2.2	2.0	1.4	3.7
Utilised during the year	(2.4)	(2.9)	(2.0)	(9.0)
Written back during the year (i)	-	(0.8)	(4.3)	(10.4)
Unwind of discount during the year (i)	-	0.4	0.3	2.8
Balance at 30 June 2018	2.7	10.9	8.8	40.9
Current Provisions	2.7	2.9	5.2	3.5
Non-Current Provisions	-	8.0	3.6	37.4

(i) Includes amounts as disclosed in Note 7.

Employee benefits – a liability is recognised for benefits accruing to employees in respect of wages and salaries and leave entitlements.

Public liability – represents the estimate of the future sacrifice of economic benefits that will be required under the Group's insured public liability exposure relating to claims below the insured excess. The estimate is based on historical trends and may vary as a result of claims.

Environmental remediation – comprises the estimated costs to restore and remediate certain properties.

Property make-good – is the estimated restoration cost to “make-good” premises which are currently occupied under operating leases or operating sites at customer premises.

Onerous contracts – comprises onerous lease and customer contracts. Onerous contracts exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received. The unexpired term of onerous leases varies up to 15 years.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

11. Current Trade and Other Payables

	2018	2017
	\$m	\$m
Trade payables (i)	393.1	365.5
Goods and Services Tax payable	14.1	16.4
	407.2	381.9

(i) Credit periods range from 1 day prompt payment to 75 days. The average credit period is 45 days. Interest has not been incurred on any outstanding balances.

(a) Accounting Policy

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within the credit timeframe.

12. Provisions

	2018		2017	
	Current	Non-current	Current	Non-current
	\$m	\$m	\$m	\$m
Employee benefits (i)	91.2	10.0	95.1	9.8
Public liability	2.7	-	2.9	-
Environmental remediation	2.9	8.0	4.2	7.7
Property make-good	5.2	3.6	6.9	6.5
Onerous contracts	3.5	37.4	10.5	20.5
	105.5	59.0	119.6	44.5

(i) The current provision for employee benefits includes \$35.1 million (2017: \$34.7 million) of vested long service leave entitlements.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

12. Provisions (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of provision, other than employee benefits, are set out below:

	Public liability \$m	Environmental remediation \$m	Property make-good \$m	Onerous contracts \$m
Balance at 30 June 2016	4.2	10.3	15.8	22.1
Assumed in a business combination	-	-	0.3	2.7
Increased during the year (i)	3.5	2.0	1.3	20.0
Utilised during the year	(3.1)	(1.8)	(0.7)	(12.2)
Written back during the year (i)	(1.7)	-	(4.2)	(3.7)
Unwind of discount during the year (i)	-	1.4	0.9	2.1
Balance at 30 June 2017	2.9	11.9	13.4	31.0
Assumed in a business combination	-	0.3	-	22.8
Increased during the year (i)	2.2	2.0	1.4	3.7
Utilised during the year	(2.4)	(2.9)	(2.0)	(9.0)
Written back during the year (i)	-	(0.8)	(4.3)	(10.4)
Unwind of discount during the year (i)	-	0.4	0.3	2.8
Balance at 30 June 2018	2.7	10.9	8.8	40.9
Current Provisions	2.7	2.9	5.2	3.5
Non-Current Provisions	-	8.0	3.6	37.4

(i) Includes amounts as disclosed in Note 7.

Employee benefits – a liability is recognised for benefits accruing to employees in respect of wages and salaries and leave entitlements.

Public liability – represents the estimate of the future sacrifice of economic benefits that will be required under the Group's insured public liability exposure relating to claims below the insured excess. The estimate is based on historical trends and may vary as a result of claims.

Environmental remediation – comprises the estimated costs to restore and remediate certain properties.

Property make-good – is the estimated restoration cost to “make-good” premises which are currently occupied under operating leases or operating sites at customer premises.

Onerous contracts – comprises onerous lease and customer contracts. Onerous contracts exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received. The unexpired term of onerous leases varies up to 15 years.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

14. Financial Instruments

(a) Capital risk management

The Group's capital risk management objective is to safeguard the ability to continue as a going concern, in order to continue to provide returns to stakeholders whilst maintaining an optimal capital structure that reduces the cost of capital.

The Board of Directors regularly reviews the capital structure by considering the absolute and relative cost and risks associated with each class of capital, market conditions, stakeholder expectations and current market practices. In order to affect capital management initiatives to maintain or adjust the capital structure, adjustments may be made to the amount of permitted distributions, the issuance or return of equity capital to shareholders, or the procurement or retirement of debt.

Operating cash flows are used to maintain and expand the assets of the Group, as well as to make routine payments of tax, interest, dividends and debt. To meet its anticipated funding requirements the Group uses a portfolio of borrowing facilities.

The capital structure of the Group was as follows:

	2018 \$m	2017 \$m
Cash and cash equivalents (Note 13(a))	(91.2)	(66.0)
<i>Current borrowings</i>		
Bank loans at amortised cost	-	828.0
Finance lease liabilities secured at amortised cost (i)	3.6	7.5
<i>Non-current borrowings</i>		
Bank loans at amortised cost	812.0	-
Finance lease liabilities secured at amortised cost (i)	11.0	12.8
Derivatives at fair value	0.4	2.3
Issued capital, reserves and accumulated losses	424.1	420.8
Total capital	1,159.9	1,205.4

(i) Secured by the assets leased.

As at 30 June 2017, the Group's 'bank loans at amortised cost' were disclosed as a current liability. This was due to the acquisition by Downer triggering a Change of Control event under Spotless' previous Syndicated Facility Agreements and Bilateral Facility Agreements ("the Facility Agreements") which gave rise to an unconditional right for the Group's debt facility lenders ("the Lenders") to trigger a review of their Facility Agreements ("Review Event"). As the Lenders held an unconditional right to trigger a Review Event as at reporting date, the Group's 'bank loans at amortised cost' were classified as current liabilities as at 30 June 2017.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

14. Financial Instruments (continued)

(b) Financial assets and financial liabilities

	2018	2017
	\$m	\$m
Financial Assets		
Cash and cash equivalents	91.2	66.0
Trade and other receivables	484.9	486.1

Trade and other receivables are non-interest bearing assets that are held to maturity. The carrying value may be affected by changes in the credit risk of the counterparties.

Financial Liabilities

Borrowings	(826.6)	(848.3)
Trade and other payables	(407.2)	(381.9)
Non-current liability	-	(10.4)
Derivatives at fair value through OCI	(0.4)	(2.3)

Borrowings comprise interest bearing liabilities recorded at amortised cost, net of borrowing costs, which are held to maturity.

Summary of borrowing arrangements

The Group refinanced its bank loan facilities in full in May 2018. This included the establishment of a circa AUD900 million Syndicated bank loan facility and AUD150 million of Bilateral bank loan facilities.

Syndicated bank loan facility:

The syndicated loan facility is on an unsecured, committed basis and comprises Australia Dollar and New Zealand Dollar Tranches as follows:

- AUD280 million revolving tranche maturing May 2021;
- NZD75 million revolving tranche maturing May 2021;
- NZD75 million term tranche maturing May 2021;
- AUD280 million revolving tranche maturing May 2022; and
- AUD200 million term tranche maturing May 2022.

Bilateral bank loan facilities:

A total of \$150 million in bilateral bank loan facilities are committed and unsecured facilities with maturities in calendar years 2020 and 2021.

The above bank loan facilities are supported by certain Group Guarantees.

Finance lease liabilities:

The Group has certain secured facilities of these types which are for an aggregate amount of \$14.6 million and which amortise over different periods of up to two years.

As at 30 June 2018, the Group had total committed facilities of \$1,047.6 million (2017: \$1,055.9 million), of which \$817.6 million is drawn (2017: \$830.9 million).

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

14. Financial Instruments (continued)

(b) Financial assets and financial liabilities (continued)

	2018 \$m	2017 \$m
Unsecured multi-option facility, effective May 2018, structured as one \$A280 million and two NZ\$75 million terminating on May 2021; and a \$A280 million and a \$A200 million terminating May 2022 (Syndicated Facility Agreement).		
Amount drawn	717.6	-
Amount undrawn	180.0	-
Unsecured cash advance facilities, structured as two AUD50 million single currency revolving cash advance facilities, commencing May 2018 and terminating May 2020 (Bilateral Facility Agreement).		
Amount drawn	50.0	-
Amount undrawn	50.0	-
Unsecured term loan, structured as one AUD50 million facility, commencing March 2018 and terminating March 2021 (Facility Agreement).		
Amount drawn	50.0	-
Amount undrawn	-	-
Unsecured multi-option facility, effective May 2014 as amended, structured as a AUD324.9 million and a NZD107.0 million revolving credit facility terminating on December 2018 (Facility A); and a AUD163.6 million and a NZD53.0 million revolving credit facility terminating December 2019 (Syndicated Facility Agreement).		
Amount drawn	-	640.9
Amount undrawn	-	-
Unsecured AUD100 million multi-currency revolving credit facility, effective December 2015 and terminating December 2020.		
Amount drawn	-	-
Amount undrawn	-	100.0
Unsecured multi-option facility structured as a AUD115.0 million dual-currency cash advance facility, with a NZ\$70.0 million sub-limit, commencing 28 May 2014, as amended, and terminating 29 July 2019 (Bilateral Facility Agreement).		
Amount drawn	-	85.0
Amount undrawn	-	30.0
Unsecured cash advance facilities, structured as two AUD75 million and a AUD50 million single currency revolving cash advance facilities, commencing 16 December 2014, as amended, and terminating 11 July 2018 (Bilateral Facility Agreement).		
Amount drawn	-	105.0
Amount undrawn	-	95.0
Total Financing Facilities	1,047.6	1,055.9

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

14. Financial Instruments (continued)

(b) Financial assets and financial liabilities (continued)

(i) Accounting Policies

Financial assets at amortised cost and the effective interest rate method

A financial asset is measured at amortised cost if the following conditions are met:

- the objective of the Group's business model in relation to those instruments is to hold the asset to collect the contractual cash flows;
- the contractual cash flows give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding; and
- the Group does not irrevocably elect at initial recognition to measure the instrument at fair value through profit or loss to minimise an accounting mismatch.

Amortised cost instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the carrying amount of amortised cost financial instruments is determined using the effective interest rate method, less any impairment losses.

Financial assets at fair value through other comprehensive income

At initial recognition the Group may make an irrevocable election (on an instrument-by-instrument basis) to recognise the change in fair value of investments in equity instruments in other comprehensive income. This election is only permitted for equity instruments that are not held for trading purposes.

These instruments are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented within equity in the investment revaluation reserve. When an investment is derecognised, the cumulative gain or loss is transferred directly to retained earnings and is not recognised in the profit or loss. Dividends or other distributions received from these investments are recognised in the profit or loss when the entity's right to receive payment or the dividend is established.

Financial liabilities

Financial liabilities are initially measured at fair value less transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of: (i) the amount of the obligation under the contract, as determined under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less (where appropriate) cumulative amortisation in accordance with revenue recognition policies described in Note 5(a).

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

14. Financial Instruments (continued)

(c) Financial covenants

The Group's financing facilities contain undertakings to comply with financial covenants. The main financial covenants that the Group is subject to are Net Leverage (Net Debt to EBITDA) and Interest Service Coverage (rolling 12-month EBITDA to Net Total Cash Interest). It also needs to ensure that guarantors under various facilities collectively meet the minimum threshold amounts of Group EBITDA and Group Total Assets.

Financial covenants are reviewed by the Spotless Board and reported to financiers on a semi-annual basis. The Group was in compliance with its financial covenants as at 30 June 2018.

(d) Hedging activities and derivatives

Derivatives not designated as hedging instruments

The Group uses foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges as they are short-term in nature (less than 12 months) and reflect the period of exposure of the underlying transaction.

Other than foreign exchange forward contracts, in the current and prior financial year the Group did not enter into any other derivative contracts that were not designated as hedging instruments.

Cash flow hedges

Interest Rate Risk

The Group uses interest rate swap contracts to manage interest rate exposures. Interest rate swap contracts measured at fair value through OCI are designated as hedging instruments in cash flow hedges of highly probable forecast transactions, as they hedge exposure to the variability in cash flows attributable to movements in the base interest rate for the floating rate debt.

2018

As part of the refinancing completed in May 2018, the Group has entered into AUD450 million and NZD100 million of interest rate swaps to hedge variability in cash flows attributable to future movements in floating interest rates. The interest rate swaps had effective dates of July 2018 and August 2018.

The cash flow hedges of the floating rate debt were assessed to be highly effective and the fair value of these hedges is \$0.4 million.

Outstanding Floating for Fixed Contracts

	NZD Average Fixed	Notional Amount \$m NZD	AUD Average Fixed	Notional Amount \$m AUD	Total Notional Amount \$m AUD
<u>Interest Rate Swaps</u>					
Less than 3 months	-	-	-	-	-
3-12 months	-	-	-	-	-
1-3 years	2.21%	100.0	2.14%	450.0	541.7
3 years +	-	-	-	-	-

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

14. Financial Instruments (continued)

(d) Hedging activities and derivatives (continued)

2017

The Group did not enter into any interest rate swap contracts during the year ended 30 June 2017.

The cash flow hedges of the Syndicated Facility Agreement were assessed to be highly effective and a net unrealised loss of \$0.1 million was recognised in the debt hedging reserve. The fair value of the cash flow hedges is \$2.3 million.

Outstanding Floating for Fixed Contracts

	NZD Average Fixed	Notional Amount \$m NZD	AUD Average Fixed	Notional Amount \$m AUD	Total Notional Amount \$m AUD
<u>Interest Rate Swaps</u>					
Less than 3 months	-	-	-	-	-
3-12 months	4.73%	26.5	3.79%	81.8	107.0
1-3 years	-	-	-	-	-
3 years +	-	-	-	-	-

(i) Accounting Policies

Derivative financial instruments

Derivatives are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured at their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);
- hedges of highly probable forecast transactions or the foreign currency risk in an unrecognised firm commitment (cash flow hedge); or
- hedges of a net investment in a foreign operation.

The fair value of derivatives is presented as a non-current asset or liability if the remaining maturity of the instrument is more than 12 months, and it is not expected to be realised or settled within 12 months.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts, and the host contracts are not measured at fair value with changes in the fair value recognised in profit or loss.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

The Group has only entered into hedges of the type classified as cash flow hedges. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges recognised in OCI and later reclassified to profit or loss when the hedged item affects profit or loss. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss as part of other expenses or other income. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the profit or loss as the recognised hedged item. When the forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

14. Financial Instruments (continued)

(d) Hedging activities and derivatives (continued)

(i) Accounting Policies (continued)

Derivative financial instruments (continued)

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(e) Measurement of fair values

The carrying amount of financial assets or liabilities recognised in the consolidated financial statements approximates to their fair value. The fair value of derivative financial instruments, as well as the methods used to estimate the fair value, is the Level 2 Observable Inputs method using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

(f) Financial risk management

The Group's activities create an exposure to a number of financial risks including market risk (interest rate and foreign exchange), liquidity risk and credit risk.

The Group's financial risk management objective is to minimise potential adverse effects on financial performance arising from changes in financial risk. Financial risk is managed centrally by Group Treasury under the direction of the Board of Directors. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Interest Rate Risk

Interest rate risk is the risk that a financial instrument's fair value or future cash flows will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk arises primarily from financial instruments with a variable rate of interest. Financial instruments with fixed interest rates do not create variable cash flow exposure.

The Group's policy is to fix estimated interest rate risk exposure at a minimum of 50% for a period of at least 12 months or as otherwise determined by the Board of Directors. The Group regularly monitors interest rate exposure and reports this to the Board of Directors.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group manages this risk by using floating-to-fixed interest rate swaps for a portion of variable rate borrowings. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group enters into and designates a selection of interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

At 30 June 2018, after taking into account the effect of interest rate swaps and other fixed-rate borrowings, \$64.6 million (2017: \$127.3 million) or 8% (2017: 15%) of the Group's borrowings are at a fixed rate of interest. The Group has entered into AUD450 million and NZD100 million of interest rate swaps to hedge variability in cash flows attributable to future movements in base rates. The interest rate swaps had effective dates of July 2018 and August 2018.

The following table details the sensitivity to earnings and equity resulting from a change in Australia and New Zealand interest rates. The sensitivity analysis assumes a constant bank credit margin and a parallel shift in the interest rate yield curve.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

14. Financial Instruments (continued)	2018	2017
(f) Financial risk management (continued)	\$m	\$m
Interest Rate Risk (continued)		
100 basis point p.a. increase		
Net profit	0.5	(4.6)
Equity	8.0	0.7
100 basis point p.a. decrease		
Net profit	(0.5)	4.6
Equity	(8.0)	(0.7)

A positive number indicates an increase in net profit and equity. All amounts are undiscounted after tax.

A \pm 100 basis point (1.00%) change has been used in this sensitivity analysis on the basis that this change is representative of a possible change in interest rates applicable to the Group on variable rate instruments and interest rate swaps.

Foreign Currency Risk

Foreign currency risk is the risk the value of a financial commitment (including a forecast transaction) or a recognised financial instrument will fluctuate due to changes in market foreign exchange rates. The Group's exposure to foreign exchange risk relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency) and the Group's net investments in foreign subsidiaries.

Additionally, the Group operates internationally and is exposed to foreign exchange risk where its subsidiaries do not transact in the subsidiary's functional currency.

The Group regularly monitors foreign exchange exposure and reports this to the Board of Directors. This risk is managed using a combination of natural hedging and foreign exchange derivative transactions. Operating cash flows in foreign currencies are used to meet interest and principal repayments under foreign currency borrowings.

Liquidity Risk

Liquidity risk is the risk the Group will not have sufficient funds to meet its financial commitments as and when they fall due.

The Group regularly monitors liquidity risk and reports this to the Board of Directors. Liquidity risk is managed through frequent and periodic cash flow forecasting and analysis. Liquidity support is provided through holding a liquidity margin in committed debt facilities. At 30 June 2018, the Group had unutilised committed debt facilities of \$230.0 million (2017: \$225.0 million).

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

14. Financial Instruments (continued)

(f) Financial risk management (continued)

Liquidity Risk (continued)

The Group's contractual maturity date for its financial liabilities is as follows. The tables are based upon undiscounted cash flows.

Non-derivative financial liabilities	Average Interest Rate	Less than 3 months	3 months to 1 year	1 to 3 years	More than 3 years	Total
2018		\$m	\$m	\$m	\$m	\$m
Trade & other payables	-	(407.2)	-	-	-	(407.2)
Bank loans (i)	3.40%	-	-	(517.6)	(300.0)	(817.6)
Finance lease liabilities	5.75%	(1.2)	(3.0)	(5.5)	(4.9)	(14.6)
		(408.4)	(3.0)	(523.1)	(304.9)	(1,239.4)
2017						
Trade & other payables	-	(381.9)	-	-	-	(381.9)
Bank loans (i) (ii)	3.32%	-	-	(830.9)	-	(830.9)
Finance lease liabilities	4.50%	(1.3)	(6.2)	(11.8)	(1.0)	(20.3)
		(383.2)	(6.2)	(842.7)	(1.0)	(1,233.1)

(i) Excludes deferred borrowing costs of \$5.6 million (2017: \$2.9 million)

(ii) At 30 June 2017, all borrowings were disclosed as current liabilities. Refer to Note 14(a) for details of the unconditional right held by the Group's Lenders, as at 30 June 2017, to trigger a Review Event. The above maturity profile has been disclosed based on contractual maturities.

(g) Credit risk management

Credit risk is the risk that a counterparty defaults on its contractual obligations resulting in financial loss to the Group. The Group has a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral as a means of mitigating this risk. The Group measures credit risk on a fair value basis.

Trade receivables consist of a large number of customers, spread across a diverse range of industries and geographical areas. Additionally, receivable balances are monitored continuously and the Group's exposure to bad debts is not significant.

The Group does not have any significant credit risk exposure to any single or group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

15. Equity

Ordinary shares issued and fully paid

	2018		2017	
	'000	\$m	'000	\$m
Balance at the beginning of the financial year	1,098,404	993.8	1,098,290	993.8
Ordinary shares issued upon exercise of rights and options (i)	3,836	-	114	-
Balance at the end of the financial year	1,102,240	993.8	1,098,404	993.8

(i) Ordinary shares were issued through the exercise of rights and options under the Spotless Executive Incentive Plan.

	2018		2017	
	Cents per Share	\$m	Cents per Share	\$m
Recognised and paid dividends				
2017 interim dividend - paid 6 April 2017	-	-	1.35	14.8
2016 final dividend - paid 30 September 2016	-	-	5.0	54.9
		-		69.7

A provision is recognised for dividends when they have been declared, determined or publicly recommended by the Directors on or before the balance sheet date. The Directors have determined not to pay a final dividend for the year ended 30 June 2018.

Franking credit balance

The amounts of franking credits available for the subsequent financial year are:

	2018	2017
	\$m	\$m
Australian franking account balance as at the end of financial year at 30% (2017: 30%)	4.4	2.2
New Zealand franking account balance as at the end of financial year at 28% (2017: 28%)	19.8	16.6
	24.2	18.8

(a) Accounting Policies

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction to the associated equity instrument's proceeds. Transaction costs are the costs incurred directly in connection with the issue of those equity instruments, and would not have been incurred had those instruments not been issued.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

Capital Employed

This section provides information relating to the tangible and intangible operating assets of the Group (as well as leases) including the accounting policies applied and the critical accounting estimates and assumptions.

16. Property, Plant and Equipment	Freehold Land	Buildings	Leasehold Improvements	Plant and Equipment	Laundries Rental Stock	Total
Consolidated	\$m	\$m	\$m	\$m	\$m	\$m
Estimated useful lives	Not applicable	50 years	2 - 25 years	2 - 20 years	18 months - 5 years	
Gross carrying amount						
Balance at 1 July 2016	49.0	9.1	42.9	250.7	184.1	535.8
Additions acquired through business combination	-	-	-	0.3	-	0.3
Additions	-	-	6.5	65.1	31.5	103.1
Disposals	-	-	-	(24.5)	-	(24.5)
Impairment	-	-	-	(28.1)	(6.5)	(34.6)
Net foreign exchange variance	-	-	-	-	0.6	0.6
Balance at 30 June 2017	49.0	9.1	49.4	263.5	209.7	580.7
Additions acquired through business combination	-	-	0.1	10.1	1.5	11.7
Additions	-	-	9.3	40.2	36.2	85.7
Disposals	(4.4)	-	(20.1)	(24.7)	-	(49.2)
Impairment	-	-	-	(17.5)	-	(17.5)
Net foreign exchange variance	-	-	(0.3)	(0.6)	(3.7)	(4.6)
Balance at 30 June 2018	44.6	9.1	38.4	271.0	243.7	606.8
Accumulated depreciation						
Balance at 1 July 2016	-	(0.9)	(22.4)	(80.6)	(129.0)	(232.9)
Depreciation expense	-	(0.2)	(5.4)	(33.5)	(40.1)	(79.2)
Disposals	-	-	-	13.0	-	13.0
Net foreign exchange variance	-	-	-	(0.4)	-	(0.4)
Balance at 30 June 2017	-	(1.1)	(27.8)	(101.5)	(169.1)	(299.5)
Depreciation expense	-	(0.2)	(5.0)	(33.2)	(33.4)	(71.8)
Disposals	-	-	13.5	19.1	-	32.6
Net foreign exchange variance	-	-	0.1	1.1	-	1.2
Balance at 30 June 2018	-	(1.3)	(19.2)	(114.5)	(202.5)	(337.5)
Net book value						
As at 30 June 2017	49.0	8.0	21.6	162.0	40.6	281.2
As at 30 June 2018	44.6	7.8	19.2	156.5	41.2	269.3

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

16. Property, Plant and Equipment (continued)

(a) Finance leases

The carrying value of plant and equipment held under finance lease contracts at 30 June 2018 was \$12.0 million (2017: \$17.5 million). Additions during the year include \$15.5 million (2017: \$14.5 million) of plant and equipment under finance lease contracts.

During the year, the Group entered into a sale and operating leaseback transaction with its motor vehicle leasing provider. The transaction encompassed approximately 800 vehicles and resulted in the Group recording of a profit on sale of \$2.9 million for the year ended 30 June 2018.

(b) Capital expenditure commitments

Plant and equipment

	2018	2017
	\$m	\$m
	13.8	11.8
	13.8	11.8

(c) Accounting Policy

Property, plant and equipment is measured at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

The straight-line method of depreciation is used for all assets. Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. Estimated useful lives are reassessed each reporting period.

Gains or losses on disposals are determined by comparing proceeds with the carrying amount and recognised in the profit or loss.

(d) Critical Accounting Estimates

Estimation of useful lives and residual values of property, plant and equipment

The estimation of the useful lives and residual of values of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment and leasehold improvements) and turnover policies. Adjustments to useful lives and residual values are made when considered necessary.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

17. Intangible Assets	Customer contracts \$m	Software development \$m	Total \$m
Estimated useful lives	6-30 years	12 years	
Cost			
Balance at 1 July 2016	111.1	100.8	211.9
Additions from software development	-	1.1	1.1
Balance at 30 June 2017	111.1	101.9	213.0
Acquisitions through business combinations	5.5	-	5.5
Additions from software development	-	0.5	0.5
Transfer of software development	-	(0.5)	(0.5)
Balance at 30 June 2018	116.6	101.9	218.5
Accumulated amortisation and impairment			
Balance at 30 June 2016	(33.8)	(15.0)	(48.8)
Amortisation for the year	(10.3)	(5.9)	(16.2)
Impairment	-	(15.1)	(15.1)
Balance at 30 June 2017	(44.1)	(36.0)	(80.1)
Amortisation for the year	(11.0)	(4.8)	(15.8)
Balance at 30 June 2018	(55.1)	(40.8)	(95.9)
Net book value			
As at 30 June 2017	67.0	65.9	132.9
As at 30 June 2018	61.5	61.1	122.6

(a) Accounting Policies

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. They are assessed to have a finite life and are amortised on a straight-line basis over their estimated useful lives. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses.

Customer contracts

Customer contracts acquired in business combinations are assessed to have finite lives and are amortised on a straight-line basis over the estimated useful lives.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

17. Intangible Assets (continued)

(a) Accounting Policies (continued)

Software development

Where no internally-generated intangible asset can be recognised, software development expenditure is recognised as an expense in the period as incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised 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 software development is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. When completed, software development is amortised on a straight-line basis over its estimated useful life. Internally-generated intangible assets are reported at cost less accumulated amortisation and impairment losses.

The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss and Other Comprehensive Income as depreciation and amortisation expense.

Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the Cash Generating Unit ("CGU") to which the asset belongs.

An impairment loss is recognised in profit and loss if the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount. Refer to Note 22 for details on the calculation of recoverable amounts.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount; to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

(b) Critical Accounting Estimates

Useful lives of acquired customer contracts

Customer contracts are carried on the Statement of Financial Position at their initial fair value at acquisition date net of accumulated amortisation. These intangible assets are amortised on a straight-line basis over the average contract term of the customer portfolio. The contract term and amortisation period has been based on historical experience and management expectation on the renewal profiles.

Impairment of intangible assets (including software development costs)

Determining whether intangible assets (including software development costs) are impaired requires an estimation of the asset's recoverable amount. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

18. Other Non-Current Assets

	2018	2017
	\$m	\$m
Capitalised contract costs	13.4	23.8
Other	2.1	5.9
	15.5	29.7

(a) Accounting Policy

Non-current other assets include upfront catering rights, capitalised contract costs (including contract mobilisation costs) and other non-current assets.

19. Leases

(a) Operating leases

Leasing arrangements

Operating leases relate to office facilities, motor vehicles and laundry plants with lease terms of 1 month to 15 years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

	2018	2017
	\$m	\$m
Non-cancellable operating leases		
Not longer than 1 year	40.3	37.6
Longer than 1 year and not longer than 5 years	88.7	81.2
Longer than 5 years	35.2	36.1
	164.2	154.9

(b) Finance leases

The Group has finance leases for various items of plant and equipment and motor vehicles with lease terms ranging from 4 to 5 years. The Group has options to purchase the equipment at a market price at the conclusion of the lease agreements. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2018		2017	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	\$m	\$m	\$m	\$m
Not longer than 1 year	4.5	4.2	8.2	7.6
Longer than 1 year and not longer than 5 years	11.4	10.4	13.3	12.7
Longer than 5 years	-	-	-	-
Minimum finance lease payments	15.9	14.6	21.5	20.3
Less future finance charges	(1.3)	-	(1.2)	-
Present value of minimum lease payments	14.6	14.6	20.3	20.3

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

19. Leases (continued)

(c) Accounting Policy

Leases where the Group holds substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at the lower of their fair value and the present value of the minimum lease payments. The corresponding liability to the Group is included in the Statement of Financial Position as a finance lease obligation.

Finance lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against profit or loss. Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Any lease incentives are recognised as a liability and amortised on a straight-line basis over the lease life.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

Group Structure and Related Parties

This section provides information on the Group's structure, encompassing controlled entities, business acquisitions, related parties and associated transactions, as well as share-based payments and the impact these transactions had on the Group's financial performance and position.

20. Controlled Entities

Parent entity (incorporated in Australia)

Spotless Group Holdings Limited

The financial statements of the Group include the following wholly-owned entities with ownership interest of 100% (all are incorporated in Australia unless otherwise noted):

Name of entity	Ref	Name of entity	Ref
Pacific Industrial Services FinCo Pty Limited	(a) (c)	SSL Facilities Management Real Estate Services Pty Ltd	(a) (c)
Pacific Industrial Services BidCo Pty Limited	(a) (c)	SSL Security Services Pty Ltd	(a) (c)
Spotless Treasury Pty Limited	(a) (c)	Taylor's Two Seven Pty Ltd	(a) (c)
Spotless Group Limited	(a) (c)	Aladdins Holdings Pty Limited	(a) (c)
Berkeley Challenge Pty Limited	(a) (c)	Aladdin Laundry Pty Limited	(a) (c)
Berkeley Challenge (Management) Pty Limited	(a) (c)	Aladdin Group Services Pty Limited	(a) (c)
Berkeleys Franchise Services Pty Ltd	(a) (c)	Aladdin Linen Supply Pty Limited	(a) (c)
Berkeley Railcar Services Pty Ltd	(a) (c)	International Linen Service Pty Ltd	(a) (c)
Cleandomain Proprietary Limited	(a) (c)	AE Smith & Son Proprietary Ltd	(a)
Cleanevent Australia Pty Ltd	(a) (c)	AE Smith & Son (SEQ) Pty Ltd	(a)
Cleanevent Holdings Pty Ltd	(a) (c)	AE Smith & Son (NQ) Pty Ltd	(a)
Cleanevent International Pty Ltd	(a) (c)	AE Smith Service Holdings Pty Ltd	(a)
Cleanevent Technology Pty Ltd	(a) (c)	AE Smith Service Pty Ltd	(a)
Ensign Services (Aust) Pty Ltd	(a) (c)	AE Smith Service (SEQ) Pty Ltd	(a)
Nationwide Venue Management Pty Ltd	(a) (c)	AE Smith Building Technologies Pty Ltd	(a)
Riley Shelley Services Pty Ltd	(a) (c)	Emerald ESP Pty Ltd	(a)
Sports Venue Services Pty Ltd	(a) (c)	Utility Services Group Limited	(a) (c)
Spotless Defence Services Pty Ltd	(a) (c)	Utility Services Group Holdings Pty Ltd	(a) (c)
Spotless Facility Services Pty Ltd	(a) (c)	UAM Pty Ltd	(a) (c)
Spotless Facility Services (NZ) Limited	(b)	Skilltech Consulting Services Pty Ltd	(a) (c)
Spotless Holdings (NZ) Limited	(b)	Skilltech Metering Solutions Pty Ltd	(a) (c)
Spotless Services International Pty Ltd	(a) (c)	Fieldforce Services Pty Ltd	(a) (c)
Spotless Investment Holdings Pty Ltd	(a) (c)	Infrastructure Constructions Pty Ltd	(a) (c)
Spotless Management Services Pty Ltd	(a) (c)	Trenchless Group Pty Ltd	(a) (c)
Spotless Property Cleaning Services Pty Ltd	(a) (c)	Monteon Pty Ltd	(a) (c)
Spotless Services Australia Limited	(a) (c)	Errolon Pty Ltd	(a) (c)
Spotless Services Limited	(a) (c)	Spotless Financing Pty Limited	(a) (c)
SSL Asset Services (Management) Pty Ltd	(a) (c)	Spotless Securities Plan Pty Ltd	(c)
Asset Services (Aust) Pty Ltd	(a) (c)	Nuvogroup (Australia) Pty Ltd	(a) (c)
Bonnyrigg Management Pty Limited	(c)	NG-Serv Pty Ltd	(a) (c)

(a) These wholly-owned entities are relieved from the requirement to prepare audited accounts under the Australian Securities and Investments Commission ("ASIC") Corporations Instrument 2016/785 (which supersedes ASIC Class Order 98/1418). Under this instrument, Spotless Group Holdings Limited and each of these wholly owned entities are required to enter into a Deed of Cross Guarantee whereby each company to the Deed guarantees to each creditor payment in full of any debt.

(b) Incorporated in New Zealand.

(c) These wholly-owned entities all form part of the tax consolidated group of which Spotless Group Holdings Limited is the head entity.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

20. Controlled Entities (continued)

Consolidated 2018 \$m	Consolidated 2017 \$m
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Set out below are the consolidated income statement and balance sheet of those wholly-owned entities that are relieved from the requirement to prepare accounts under ASIC Corporations Instrument 2016/785 as they are party to the deed of cross guarantee with Spotless Group Holdings Limited:

Income Statement

Revenue	2,652.5	2,601.3
Other income	3.9	23.5
	2,656.4	2,624.8
Direct employee and subcontractor expenses	(1,876.1)	(1,776.0)
Raw materials, consumables and finished goods used	(407.8)	(399.8)
Other expenses	(275.6)	(655.5)
Profit / (Loss) before depreciation, finance costs and income tax (EBITDA)	96.9	(206.5)
Depreciation and amortisation expense	(94.3)	(98.8)
Profit / (Loss) before finance costs and income tax (EBIT)	2.6	(305.3)
Net finance costs	(31.1)	(36.4)
Loss before income tax	(28.5)	(341.7)
Income tax benefit	18.2	7.6
Loss for the year	(10.3)	(334.1)

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

20. Controlled Entities (continued)

	Consolidated 2018 \$m	Consolidated 2017 \$m
Current assets		
Cash and cash equivalents	70.6	60.2
Trade and other receivables	280.6	364.6
Inventories	25.9	27.6
Prepayments	13.2	11.1
Total current assets	390.3	463.5
Non-current assets		
Investments accounted for using the equity method	0.4	0.6
Investment in subsidiaries	114.0	34.0
Trade and other receivables	89.7	73.3
Property, plant and equipment	243.4	253.7
Goodwill	744.8	753.4
Intangible assets	122.6	132.9
Deferred tax assets	99.9	112.2
Other	14.3	32.2
Total non-current assets	1,429.1	1,392.3
Total assets	1,819.4	1,855.8
Current liabilities		
Trade and other payables	362.4	333.9
Borrowings	2.4	682.2
Current tax payable	2.4	8.2
Provisions	92.8	107.2
Derivatives at fair value	0.2	1.6
Total current liabilities	460.2	1,133.1
Non-current liabilities		
Amounts due to related parties	0.1	0.1
Borrowings	684.1	11.6
Deferred tax liabilities	46.8	76.6
Provisions	55.0	41.1
Other	1.0	11.7
Total non-current liabilities	787.0	141.1
Total liabilities	1,247.2	1,274.2
Net assets	572.2	581.6
Equity		
Issued capital	993.8	993.8
Reserves	29.3	28.4
Accumulated losses (i)	(450.9)	(440.6)
Total equity	572.2	581.6

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

20. Controlled Entities (continued)

	Consolidated 2018 \$m	Consolidated 2017 \$m
<i>(i) Accumulated losses</i>		
Balance at beginning of the year	(440.6)	(36.8)
Net loss	(10.3)	(334.1)
Dividends paid	-	(69.7)
Balance at end of the year	(450.9)	(440.6)

21. Business Combinations

(a) Finalised aggregated fair values of the identifiable assets and liabilities of Cabrini

On 1 July 2017, the Group acquired the customer contracts and associated assets and liabilities of Cabrini Linen Service ("Cabrini"). The primary purpose for this acquisition is to strengthen the Group's linen capabilities, enhance customer service offerings and maintain the Group's market-leading position in the Victorian healthcare sector. The accounting for this acquisition was finalised within 12 months of acquisition date.

	Finalised at 30 Jun 2018 \$m
Assets	
Property, plant and equipment	11.7
Intangible assets	5.5
Deferred tax assets	6.9
	24.1
Liabilities	
Non-employee provisions	23.0
Finance leases	9.0
Deferred tax liabilities	1.7
	33.7
Total identifiable net liabilities at fair value	(9.6)
Purchase consideration transferred - cash	20.0
Goodwill arising on acquisition	29.6

The goodwill of \$29.6 million includes knowledge, business and capability acquired as well as the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

21. Business Combinations (continued)

(b) Finalised aggregated fair values of the identifiable assets and liabilities of Nuvo

On 31 October 2016, the Group acquired 100% of the share capital of Nuvogroup (Australia) Pty Ltd and NG-Serv Pty Ltd (collectively, referred to as "Nuvo"). The primary reason for acquiring Nuvo is to broaden the capacity to deliver long life integrated services. The accounting for this acquisition was finalised within 12 months of acquisition date.

	Provisional at 30 Jun 2017 \$m	Adjustments \$m	Finalised at 30 Jun 2018 \$m
Assets			
Property, plant and equipment	0.3	-	0.3
Cash overdraft	(1.4)	-	(1.4)
Trade and other receivables	11.2	(0.3)	10.9
Inventories	0.1	-	0.1
Prepayments	0.1	-	0.1
Deferred tax assets	3.2	(1.7)	1.5
	13.5	(2.0)	11.5
Liabilities			
Trade and other payables	22.2	(0.3)	21.9
Employee provisions	1.3	0.1	1.4
Non-employee provisions	3.0	-	3.0
Other liabilities	1.7	-	1.7
	28.2	(0.2)	28.0
Total identifiable net liabilities at fair value	(14.7)	(1.8)	(16.5)
Purchase consideration transferred - cash	23.9	-	23.9
Intercompany amounts payable to the Group on acquisition	(1.5)	-	(1.5)
Goodwill arising on acquisition	37.1	1.8	38.9

The adjustments to the provisional balances as at 30 June 2017 have not been restated in the prior comparative period as the adjustments (as shown in the above table) are deemed by management to be immaterial.

The goodwill of \$38.9 million includes knowledge, business and capability acquired as well as the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition related transaction costs of \$0.1 million (2017: \$0.7 million) were recognised in other expenses in the Statement of Profit or Loss and Other Comprehensive Income during the period.

In aggregate, the acquisitions noted in the above tables contributed \$109.8 million of revenue and contributed \$3.9 million to profit after tax for the year ended 30 June 2018.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

21. Business Combinations (continued)

(a) Accounting Policy

The Group accounts for all business combinations using the acquisition method. The cost of a business combination is measured as the aggregate of the fair values (at exchange date) of assets given, liabilities incurred, and equity instruments issued by the Group. Acquisition related transaction costs are expensed as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions under AASB 3 *Business Combinations* are recognised at their fair values at the acquisition date; except held for sale non-current assets (or disposal groups) which are measured at the lower of their carrying amount and fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the fair value of the net identifiable assets recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's net identifiable assets or its value in use exceeds the cost of the business combination, the excess is immediately recognised in Statement of Profit or Loss and Other Comprehensive Income.

Contingent consideration is measured at fair value at the acquisition date. Subsequent adjustments to consideration are recognised against goodwill to the extent they arise from better information regarding fair value at acquisition date and occur within 12 months of acquisition date. All other subsequent adjustments are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

22. Goodwill

Balance at the beginning of the year
Acquired in a business combination (Note 21)
Impairment loss (Note 22(c))
Balance at the end of the year

2018	2017
\$m	\$m
753.4	1,032.0
31.4	37.1
(40.0)	(315.7)
744.8	753.4

(a) Accounting Policy

Goodwill, representing the excess of the cost of an acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset (net of impairment where applicable) and is not amortised. A CGU to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income and cannot be subsequently reversed.

(b) Allocation of Goodwill

The Group comprises two distinct businesses, namely, Facility Services and Laundries, representing the different services and capability offered to customers. The services offered to Facility Services customers are largely homogenous and leverage the skills and experience of the Group in mobilising and operating large contracts with multiple service lines. The balance of goodwill has been allocated to these CGUs as follows:

Facility Services
Laundries
Balance at the end of the year

2018	2017
\$m	\$m
676.6	674.8
68.2	78.6
744.8	753.4

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

22. Goodwill (continued)

(c) Impairment Testing of Goodwill

Impairment testing is performed annually at 30 June in accordance with the Group's accounting policies and processes, or earlier when there is an indicator of impairment. At each reporting date, the Group reviews the carrying amounts of its goodwill and assets to determine whether there is any indication of impairment. Where an indicator exists, a formal estimate of the recoverable amount is made. An impairment loss is recognised in profit and loss if the recoverable amount of an asset is estimated to be less than its carrying amount.

For the 12 months ended 30 June 2018, the Group performed impairment testing at both 31 December 2017 and 30 June 2018. A goodwill impairment loss of \$40.0 million was recognised in the Statement of Profit or Loss and Other Comprehensive Income at 31 December 2017. No additional goodwill impairment loss was recognised as part of the annual impairment testing at 30 June 2018.

31 December 2017 Impairment Testing of Goodwill

Management concluded that no impairment indicators existed for the Facility Services CGU at 31 December 2017, hence an impairment test was not required. However, management assessed an indicator of impairment existed for the Laundries' CGU due to the deterioration in Laundries' 1H18 underlying performance against budget and reduction in outer year forecasts, as well as an increase in the carrying value of the CGU as a result of the Cabrini Laundry acquisition.

Based on this test, it was determined that the carrying amount of the Laundries' CGU exceeded its recoverable amount, requiring a \$40.0 million goodwill impairment loss to be recognised in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The discussion below outlines the Group's methodology and approach at 31 December 2017 in which a goodwill impairment loss was recognised.

(i) Methodology and Testing of Recoverable Amount

Value in Use

The recoverable amount of the Laundries' CGU was determined based on a value in use ("VIU") calculation.

Key Assumptions

The following key assumptions were used to determine the recoverable amounts of the Laundries' CGU under a value in use model:

i) Cash Flows

Cash flows were based on a contract profitability forecast using the growth rates detailed in point iii) below between years 2 and 5 and a terminal value based on the long-term growth rate. The cash flows comprised earnings before interest, depreciation and amortisation from each CGU net of expected working capital movements (as a surrogate for cash flows) and sustainable levels of maintenance capital expenditure.

ii) Discount Rates

The 14.0% discount rate applied in testing the recoverable amount reflected the pre-tax weighted average cost of capital for the Laundries' CGU and was reflective of the current market assessment of the risks specific to the CGU, taking into consideration the time value of money.

iii) EBITDA Growth

EBITDA growth was based on management's experience in the Laundries' customer sector, from observable industry trends and data, and growth prospects given current revenue pipelines. A compound annual growth rate of 2.1% between years 2 and 5 was applied.

iv) Long Term Growth Rate

Management applied a long-term growth rate of 3.0% beyond the 5 year forecast period and into perpetuity. This range was considered to be in line with external market expectations of long term growth in this industry.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

22. Goodwill (continued)

(c) Impairment Testing of Goodwill (continued)

(i) Methodology and Testing of Recoverable Amount (continued)

30 June 2018 Impairment Testing of Goodwill

Impairment testing at 30 June 2018 was undertaken at the Facility Services and Laundries CGU level. The discussion below outlines the Group's methodology and approach at 30 June 2018 for impairment testing.

Value in Use

The recoverable amount of both CGUs has been determined based on a VIU calculation.

Key Assumptions

The following key assumptions have been used to determine the recoverable amounts of the Group's CGUs under a VIU model:

i) Cash Flows

Cash flows have been based on a contract profitability forecast using the growth rates detailed in point iii) below between years 2 and 5 and a terminal value based on the long-term growth rate. The cash flows comprise earnings before interest, depreciation and amortisation from each CGU net of expected working capital movements (as a surrogate for cash flows) and sustainable levels of maintenance capital expenditure.

ii) Discount Rates

Discount rates applied in the testing of recoverable amount reflect the pre-tax weighted average cost of capital for the respective CGUs (13.1% for the Facility Services CGU and 13.7% for the Laundries CGU) and is reflective of the current market assessment of the risks specific to each CGU taking into consideration the time value of money.

iii) EBITDA Growth

EBITDA growth has been based on management's experience in the respective customer sectors, from observable industry trends and data, and growth prospects given current revenue pipelines. Compound annual growth rates applied range from 2.6% to 2.7% between years 2 and 5.

iv) Long Term Growth Rate

Management has applied a long-term growth rate of 3.0% beyond the 5 year forecast period and into perpetuity. This range is considered to be in line with external market expectations of long term growth in these industries.

(d) Sensitivity Analysis

The Group has assessed the potential impact of reasonably possible changes in the following key assumptions on the recoverable amount of CGUs calculated using the VIU methodology:

- Pre-tax discount rate
- Compound annual EBITDA growth rate
- Long term growth rate

The Group does not believe there is a reasonably possible change in those assumptions which would result in the carrying value of the Facility Services CGU exceeding its recoverable amount.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

22. Goodwill (continued)

(d) Sensitivity Analysis (continued)

A reasonably possible unfavourable change in each of these assumptions in isolation would result in the following approximate change on the estimated recoverable amounts for the Laundries CGU. This may have a negative impact on the recoverable amount, without any mitigating facts or changed circumstances, and could indicate a requirement for additional goodwill impairment.

Sensitivity	Laundries \$m
1.0% increase in the pre-tax discount rate	(27.1)
1.0% decrease in the compound annual EBITDA growth rate	(15.7)
1.0% decrease in the long-term growth rate	(18.2)

23. Parent Entity Disclosures

As at 30 June 2018 the parent company of the Group was Spotless Group Holdings Limited.

	2018 \$m	2017 \$m
Result of the parent entity		
(Loss) / Profit after tax for the year	(7.6)	142.8
Other comprehensive income	-	-
Total comprehensive (loss) / profit for the year	(7.6)	142.8
Financial position of the parent entity at year end		
Current assets	-	-
Non-current assets	1,439.3	1,438.9
Total assets	1,439.3	1,438.9
Current liabilities	403.2	378.7
Non-current liabilities	-	15.1
Total liabilities	403.2	393.8
Net assets	1,036.1	1,045.1
Total equity of the parent entity at year end comprised:		
Issued capital	993.8	993.8
Reserves	13.3	18.0
Retained earnings	29.0	33.3
Total equity	1,036.1	1,045.1

During the year, the Company did not receive any dividends from its wholly-owned subsidiary (2017: \$160.0 million).

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

23. Parent Entity Disclosures (continued)

Parent entity contingencies

The parent entity has no bank guarantees or any contingent liabilities or capital commitments as at 30 June 2018 (2017: Nil).

Parent entity guarantees in respect of debts of its subsidiaries

Spotless Group Holdings Limited has issued the following guarantees in relation to the debts of its subsidiaries: Pursuant to ASIC Corporations Instrument 2016/785, Spotless Group Holdings Limited has entered into a deed of cross guarantee on 28 March 2014. The effect of the deed is that Spotless Group Holdings Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity. The controlled entities have also given a similar guarantee in the event that Spotless Group Holdings Limited is wound up.

24. Related Party Disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 20 to the financial statements.

(b) Key management personnel compensation and retirement benefits

The aggregate compensation of key management personnel of the Group is set out below:

	2018	2017
	\$	\$
Short-term employee benefits	3,819,868	4,923,482
Long-term benefits	66,880	42,175
Post-employment benefits	114,141	156,496
Termination benefits	1,802,226	-
Share-based payments	-	4,194,093
	5,803,115	9,316,246

(c) Key management personnel equity interests

As at 30 June 2018 key management personnel held 800,000 (2017: 2,492,917) fully paid shares and 1,484,088 (2017: 7,676,879) share options and rights in the Group.

(d) Other transactions with key management personnel

The Group transacts with certain related party entities of Directors in the ordinary course of business. All transactions are on an arm's length basis.

The Group transacts with Downer EDI Limited and its subsidiaries ("Downer Group") in the ordinary course of business including the procurement of operational and governance support functions. These transactions are undertaken in accordance with protocols agreed between the two Groups.

There were no other transactions between key management personnel, or their related parties, and the Company or its subsidiaries during the reporting period.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

24. Related Party Disclosures (continued)

(e) Transactions within the wholly-owned group

The wholly-owned group includes the ultimate parent entity in the wholly-owned group, wholly-owned controlled entities, and other entities in the wholly-owned group.

During the financial year, various subsidiaries of the Group provided administration services to other entities within the wholly-owned group. Other transactions that occurred during the financial year between entities within the wholly-owned group were:

- sale and purchase of goods at cost; and
- rental of premises at commercial rates.

(f) Transactions with other related parties

Other related parties include the ultimate parent entity, partly-owned controlled entities, joint venture entities, directors of related parties and their director related entities and other related parties.

During the year, the Group paid expenses of \$1.9 million to the Downer Group and received \$3.8 million in revenue from the Downer Group. At 30 June 2018, the Group held payables of \$0.9 million to the Downer Group and receivables of \$0.7 million from the Downer Group. The sales to and purchases from the Downer Group are made on terms equivalent to those that prevail in arm's length transactions.

No material amounts were charged or recharged by any other related parties (2017: Nil).

(g) Controlling entities

The parent entity in the Group is Spotless Group Holdings Limited.

The ultimate parent entity in the wholly-owned group is Spotless Group Holdings Limited.

The immediate parent of Spotless Group Holdings Limited is Downer EDI Services Pty Limited.

The ultimate parent entity of the Group is Downer EDI Limited.

25. Share-based Payment

Under the Long-Term Incentive ("LTI") Plan Rules, the Downer takeover constituted a "Corporate Control Event", which triggered pro-rata vesting on 21 April 2017 of unvested Executive Options and Rights, based on the proportion of the vesting period then remaining.

With regard to the balance of unvested Executive Options and Rights that did not vest on a pro-rata basis, the Board exercised discretion under the LTI Plan Rules to approve the vesting of those LTI Options and LTI Rights at the time the Downer offer became unconditional. This occurred on 19 June 2017. No additional LTI Options or LTI Rights were granted in the year ended 30 June 2018.

(a) Executive Options and Rights

	2018 Number	2018 WAEP (i)	2017 Number	2017 WAEP (i)
Balance at the beginning of the financial year	13,409,550	1.16	9,240,929	1.85
Granted during the year	-	-	6,791,884	0.50
Forfeited during the year	-	-	(2,509,478)	1.96
Exercised during the year	(7,626,601)	-	(113,785)	-
Balance at the end of the financial year	5,782,949	2.69	13,409,550	1.16

(i) Weighted average exercise price ("WAEP")

The weighted average share price at the date of exercise for share options and rights exercised during the year was \$1.15.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

25. Share-based Payment (continued)

(b) Expenses arising from equity-settled share-based payment transactions

	2018	2017
	\$	\$
Executive options granted on 23 May 2014 (i)	-	190,269
Executive options granted on 28 September 2015 (i)	-	815,368
Executive options and rights granted on 22 October 2015 (ii)	-	1,435,019
Executive options granted on 13 April 2016 (iii)	-	216,108
Modification of options and rights granted 22 October 2015 (effective 13 April 2016) (ii)	-	1,610,506
Modification of options granted 28 September 2015 (effective 16 June 2016) (iv)	-	47,737
Executive rights granted on 24 November 2016 (i)	-	2,005,329
	-	6,320,336

The unconditional take-over offer undertaken by Downer caused the accelerated vesting of outstanding options and rights during 2017. This acceleration caused a \$5,522,907 expense to be recognised, which is included within the table above.

- (i) *The executive options and rights granted on 23 May 2014, 28 September 2015 and 24 November 2016 respectively were awarded to senior executive management. Details of each respective award are shown in Note 25 table (d).*
- (ii) *The expense incurred for executive options and rights granted on 22 October 2015 (and subsequent modification) is in respect of Mr Martin Sheppard.*
- (iii) *The executive options granted on 13 April 2016 are in respect of the Group's Chief Financial Officer, Mr Nigel Chadwick, after commencement of employment with the Group. Details of the award are shown in Note 25 table (d).*
- (iv) *The modification of options granted to senior executive management on 28 September 2015 was caused by extending the vesting date of the original award from 30 June 2018 to 20 June 2019, with all other performance hurdles remaining the same. Details of the amended valuation are shown in Note 25 table (d).*

(c) Accounting Policy

Share-based payments made to employees and others which grant rights over the parent entity's shares are accounted for as equity-settled share-based payment transactions.

Equity-settled share-based payments with employees (and others providing similar services) are measured at the fair value of the equity instrument at grant date. Fair value is measured by use of a binomial model and/or Monte Carlo simulation model.

The fair value determined at grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of the modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee.

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the year ended 30 June 2018

25. Share-based Payment (continued)

(d) Fair value of performance options and rights issued

All performance options and rights issued to key management personnel are valued using the Monte Carlo methodology. The following table details the underlying inputs into their fair value, and describes the performance hurdles each are subject to:

	Number of performance options and rights	Fair value at issue \$	Exercise price \$	Expected volatility (iv)	Dividend yield	Risk Free rate	Performance criteria	Vesting date	Expiry date
Granted 23 May 2014	1,263,171	0.1920	1.60	27.50%	5.50%	2.59%	EPS	30 June 2016	30 June 2017
Granted 23 May 2014	1,263,171	0.1850	1.60	27.50%	5.50%	2.59%	RTSR	30 June 2016	30 June 2017
Granted 23 May 2014	3,416,237	0.2130	1.60	27.50%	5.50%	2.79%	EPS	30 June 2017	30 June 2018
Granted 23 May 2014	3,416,237	0.2090	1.60	27.50%	5.50%	2.79%	RTSR	30 June 2017	30 June 2018
Granted 28 September 2015	3,692,631	0.2510	2.07	26.01%	5.85%	1.91%	EPS	30 June 2018	30 June 2019
Granted 28 September 2015	3,692,631	0.2380	2.07	26.01%	5.85%	1.91%	RTSR	30 June 2018	30 June 2019
Modification to options granted 28 September 2015 (i)	(iii)	0.1090	2.07	50.12%	7.89%	1.51%	EPS	30 June 2019	30 June 2020
Modification to options granted 28 September 2015 (i)	(iii)	0.1030	2.07	50.12%	7.89%	1.51%	RTSR	30 June 2019	30 June 2020
Modification to options granted 22 October 2015 (ii)	1,644,071	0.2770	1.03	50.36%	7.79%	1.91%	EPS	30 June 2018	30 June 2019
Modification to options granted 22 October 2015 (ii)	1,644,071	0.2690	1.03	50.36%	7.79%	1.91%	RTSR	30 June 2018	30 June 2019
Modification to rights granted 22 October 2015 (ii)	629,235	0.9000	-	50.36%	7.79%	2.09%	EPS	30 June 2019	30 June 2020
Modification to rights granted 22 October 2015 (ii)	629,235	0.6100	-	50.36%	7.79%	2.09%	RTSR	30 June 2019	30 June 2020
Granted 13 April 2016	474,251	0.2770	1.03	50.36%	7.79%	1.91%	EPS	30 June 2018	30 June 2019
Granted 13 April 2016	474,251	0.2690	1.03	50.36%	7.79%	1.91%	RTSR	30 June 2018	30 June 2019
Granted 24 November 2016	1,122,636	0.7440	-	47.71%	8.04%	1.92%	EPS	30 June 2019	30 June 2020
Granted 24 November 2016	1,122,636	0.4960	-	47.71%	8.04%	1.92%	RTSR	30 June 2019	30 June 2020

(i) Modification date of options granted 28 September 2015 was 16 June 2016.

(ii) Modification date of options granted 22 October 2015 was 13 April 2016.

(iii) Modification related to options granted on 28 September 2015 (3,692,631 EPS and 3,692,631 RTSR). No additional options were granted at modification date.

(iv) Expected volatility captures the characteristic of fluctuations in the share's price. Accordingly, the determination of the expected volatility takes into account the historical market volatility and the market implied volatility.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements
for the year ended 30 June 2018

25. Share-based Payment (continued)

(d) Fair value of performance options and rights issued (continued)

The unconditional take-over offer undertaken by Downer caused the accelerated vesting of outstanding options and rights during 2017. Vesting date for all of the below options and rights was 30 June 2017. No additional options were granted at modification dates. All other terms and conditions remained unchanged. Details of the modifications are set out in the table below.

	Modification date	Fair value per option/ right revalued at modification date \$	Fair value per option/ right at modification date \$	Exercise price \$	Expected volatility (i)	Dividend yield	Risk Free rate	Performance criteria
Modification to options granted 22 October 2015	21 April 2017	0.27	0.28	1.03	54.46%	3.60%	1.66%	EPS
Modification to options granted 22 October 2015	19 June 2017	0.27	0.28	1.03	51.64%	3.48%	1.70%	EPS
Modification to options granted 22 October 2015	21 April 2017	0.26	0.28	1.03	54.46%	3.60%	1.66%	RTSR
Modification to options granted 22 October 2015	19 June 2017	0.25	0.28	1.03	51.64%	3.48%	1.70%	RTSR
Modification to rights granted 22 October 2015	21 April 2017	1.03	1.11	-	60.55%	3.60%	1.66%	EPS
Modification to rights granted 22 October 2015	19 June 2017	1.07	1.15	-	60.10%	3.48%	1.70%	EPS
Modification to rights granted 22 October 2015	21 April 2017	0.66	1.11	-	60.55%	3.60%	1.66%	RTSR
Modification to rights granted 22 October 2015	19 June 2017	0.69	1.15	-	60.10%	3.48%	1.70%	RTSR
Granted 13 April 2016	21 April 2017	0.27	0.28	1.03	54.46%	3.60%	1.66%	EPS
Granted 13 April 2016	19 June 2017	0.27	0.28	1.03	51.64%	3.48%	1.70%	EPS
Granted 13 April 2016	21 April 2017	0.26	0.28	1.03	54.46%	3.60%	1.66%	RTSR
Granted 13 April 2016	19 June 2017	0.25	0.28	1.03	51.64%	3.48%	1.70%	RTSR
Granted 24 November 2016	21 April 2017	0.99	1.11	-	52.00%	3.60%	1.76%	EPS
Granted 24 November 2016	19 June 2017	1.03	1.15	-	50.59%	3.48%	1.80%	EPS
Granted 24 November 2016	21 April 2017	0.69	1.11	-	52.00%	3.60%	1.76%	RTSR
Granted 24 November 2016	19 June 2017	0.72	1.11	-	50.59%	3.48%	1.80%	RTSR

(i) Expected volatility captures the characteristic of fluctuations in the share's price. Accordingly, the determination of the expected volatility takes into account the historical market volatility and the market implied volatility.

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the year ended 30 June 2018

Other Information

This section provides details on other required disclosures relating to the Group to comply with accounting standards and other pronouncements.

26. Commitments and Contingent Liabilities

	2018	2017
	\$m	\$m
Legal proceedings (i)	-	-
Bank guarantees, insurance bonds and letters of credit (ii)	146.9	144.3
Catering rights	120.7	130.6

(i) On 25 May 2017, Alison Court, as applicant, filed a representative proceeding in the Federal Court of Australia on behalf of shareholders who acquired the Company's shares from 25 August 2015 to 1 December 2015. The applicant under this proceeding alleges that the Company engaged in misleading or deceptive conduct and/or breached its continuous disclosure obligations in relation to the Company's financial results for the financial year ended 30 June 2015, and in its conduct following the release of those financial results until the Company issued its trading update of 2 December 2015. The applicant seeks damages, declarations, interest and costs. The Company is vigorously defending the proceeding.

No provision has been recognised at 30 June 2018 in respect of the representative proceeding.

Other than the above, the Group does not have any material contingent liabilities in respect of legal proceedings as at 30 June 2018 (30 June 2017: nil). A number of legal claims exist where the outcome is uncertain. Where practicable, provision has been made in the financial statements to recognise the estimated cost to settle the claims based on best estimate assumptions and legal advice where relevant. The actual amounts settled in relation to the outstanding matters may differ to those estimated.

(ii) A number of entities within the Group are required to guarantee their performance or provide financial surety for certain contracts. The amount disclosed represents the aggregate amount of such guarantees. The extent to which an outflow of funds will be required is dependent on the future operations.

Spotless Facilities Management Subcontract – new Royal Adelaide Hospital

In September 2017, Spotless commenced a Facilities Management Subcontract ("Subcontract") at the new Royal Adelaide Hospital ("nRAH"). Spotless' Subcontract is with Celsus, which has a head contract with the South Australian Government under a Public Private Partnership model.

Spotless has previously announced that the Subcontract is a cash negative underperforming contract and that Spotless is working to resolve various commercial and operational issues which include significant preliminary claims and counter claims (including the application of some abatements, which are disputed by Spotless). Discussions between Spotless, Celsus and the South Australian Government are ongoing and most recently, a formal process has commenced (as set out in a Process Suspension Deed dated 20 June 2018) to enable the parties to address the various commercial and operational issues affecting the delivery of services at the nRAH ("Standstill Discussions").

In the event that Spotless is not successful in either reaching agreement as part of the Standstill Discussions or via arbitration proceedings, then Spotless is likely to incur operating losses up until September 2022 (being the five year anniversary of the Subcontract term), at which point Spotless has the ability to trigger a re-pricing process. In this scenario, the estimated present value of the losses would be \$93.8 million (after tax) as at 30 June 2018, excluding abatements that are disputed by Spotless which the Group does not consider to be probable.

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the year ended 30 June 2018

26. Commitments and Contingent Liabilities (continued)

Other Contingent Liabilities

The Group has entered long term contracts with customers that specify performance hurdles relating to the delivery of contracted services. These types of contracts are entered into in the normal course of business and where the relevant performance hurdles are not met, abatements may be payable. Provision is made for abatement claims only when it is probable the Group will incur a liability for such claims. Where the liability for abatement claims is uncertain as at the date of this report, a contingent liability may exist for amounts that ultimately become payable in excess of current provisioning.

27. Remuneration of Auditors

	2018	2017
	\$	\$
Auditor of the parent entity prior to 29 November 2017 (i)		
Auditing the financial statements	-	1,600,000
Other services:		
Other assurance services	-	43,450
Due diligence services	-	447,306
Taxation services	-	428,632
Other non-audit services	-	126,257
	-	2,645,645
Auditor of the parent entity after 29 November 2017 (i)		
Auditing the financial statements	1,100,000	-
Other services:		
Other assurance services	24,000	-
Due diligence services	-	-
Taxation services	42,000	-
Other non-audit services	529,000	-
	1,695,000	-

(i) During FY18 Spotless Group Holdings Limited elected to change auditor from Ernst and Young to KPMG. This change was approved at the Company's Annual General Meeting on 29 November 2017, which took effect on the date of the Company's ASX announcement on 29 November 2017.

Audit fees were paid on behalf of the Company by a subsidiary of the Group.

28. Events After the Reporting Period

There has not been any other matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.



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

To the Directors of Spotless Group Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Spotless Group Holdings Limited for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

James Dent
Partner

Melbourne
16 August 2018

Directors' Declaration

The Directors of Spotless Group Holdings Limited declare that in the opinion of the Directors:

- (a) the financial statements and notes thereto are in accordance with the *Corporations Act 2001* ("the Act") including:
 - i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

Signed in accordance with a resolution of the Directors.

On behalf of the Board of Directors



J Humphrey
Chairman
Melbourne, 16 August 2018



D Nelson
Chief Executive Officer & Managing Director
Melbourne, 16 August 2018



Independent Auditor's Report

To the shareholders of Spotless Group Holdings Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Spotless Group Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- the Consolidated Statement of Financial Position as at 30 June 2018;
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Cash Flow Statement for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Recoverability of work-in-progress, onerous contract assessment and presentation of contingent liability in relation to the new Royal Adelaide Hospital Facilities Management Subcontract
- Valuation of goodwill
- Recognition of revenue and disclosure of expected transitional adjustments to AASB 15 *Revenue from Contracts with Customers*

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of work-in-progress, onerous contract assessment and presentation of contingent liability in relation to the new Royal Adelaide Hospital Facilities Management Subcontract

Refer to Note 7 *Individually Significant Items* and Note 26 *Commitments and Contingent Liabilities* to the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>The Group's Facilities Management Subcontract ("subcontract") with the new Royal Adelaide Hospital (nRAH) is a cash negative underperforming contract. The Group is currently in negotiations with the State of South Australia and Celsus regarding claims for additional revenue and variations to contractual terms. Celsus is the public-private partnership project consortium responsible for the management of nRAH. The Group has made assumptions regarding the outcomes of these negotiations and included these within their contract profitability model when:</p> <ul style="list-style-type: none"> • Evaluating the recoverability of work-in-progress attributable to the subcontract; • Assessing the subcontract against the onerous contract criteria in AASB 137 <i>Contingent Liabilities and Contingent Assets</i>; and • Identifying the contingent liabilities associated with the subcontract. <p>This is a Key Audit Matter due to:</p> <ul style="list-style-type: none"> • The quantum of the amounts subject to the 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Reading the subcontract with Celsus to understand the scope of work the Group is contracted to undertake, pricing arrangements, abatement regime and the protocols to address disputes; • Reading legal advice obtained by the Group regarding the application of various contractual terms and conditions to understand the scope and the Group's obligations of the subcontract; • Visiting nRAH to observe the services being provided by the Group; and meet with management to understand the subcontract and the contractual obligations of the Group; • Assessing key assumptions adopted by the Group in the contract profitability model as follows: <ul style="list-style-type: none"> - Working with our specialists, assessing the discount rate used in the Group's contract profitability model by comparing it against publicly available data for a group of comparable entities; - comparing the forecast rate of cost

<p>Group's assumptions could have a significant impact on the financial statements;</p> <ul style="list-style-type: none"> • The uncertainty associated with the outcome of the negotiations with the State of South Australia and Celsus increases the risk of inaccurate forecasting upon which recoverability of work in progress and the onerous contract assessment is considered; and • A high level of judgement required by us to evaluate the assumptions adopted by the Group in their contract profitability model used to forecast the financial performance of the subcontract over its full term. The uncertainties increase the risk of a wide range of possible outcomes for us to consider in our audit, specifically the recoverability of work-in-progress, recognition of onerous contracts and disclosure of contingent liabilities associated with the subcontract. 	<p>reductions to historical trends achieved since subcontract mobilisation;</p> <ul style="list-style-type: none"> - comparing the anticipated costs of performing lifecycle maintenance work to current costs of comparable activities; - analysing economic assumptions relating to inflation and labour growth against publically available data; and - considering the sensitivity of the contract profitability model by varying key assumptions, such as discount rate, forecast revenue, employee headcount, anticipated costs of performing lifecycle maintenance work and inflation rates within a reasonably possible range, to identify what assumptions were most critical to the subcontract's profitability. <ul style="list-style-type: none"> • Testing mathematical accuracy of the Group's contract profitability model used to assess the recoverability of work-in-progress and the forecast profitability of the subcontract; • We compared the forecast surplus from the contract profitability model to the carrying value of work in progress attributable to the subcontract recognised by the Group to evaluate the Group's conclusion the: <ul style="list-style-type: none"> • work in progress is recoverable; and • subcontract is not onerous in accordance with the criteria in the accounting standards; • Reading the contingent liability disclosure and evaluating the disclosure against the requirements of the accounting standards; • Checking the amounts in the contingent liability disclosure for consistency with the amounts in the contract profitability model; • Reading documents prepared by Spotless submitted to Celsus and the State of South Australia in connection with the negotiations to assess consistency with the assumptions included in the Group's contract profitability model.
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Valuation of goodwill	
Refer to Note 22 <i>Goodwill</i> to the Financial Report (\$744.8m)	
The key audit matter	How the matter was addressed in our audit
<p>A key audit matter was the Group's annual testing of goodwill for impairment, given the size of the balance (being 40% of total assets) and impairment write-downs during the current and prior years. The Group recorded an impairment charge of \$40m against goodwill for the Laundries Cash Generating Unit (CGU), resulting from the deterioration in the operating results of the Laundries business since 30 June 2017 and weaker forecast cash flows. We focused on the significant forward-looking assumptions the Group applied in their value in use models, including:</p> <ul style="list-style-type: none"> • forecast cash flows – there is a significant level of judgement applied by the Group to forecast cash flows including the outcome of tenders and forecast contract costs; • forecast growth rates and terminal growth rates; and • discount rates - these are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time, and the models' approach to incorporating risks into the cash flows or discount rates. <p>The Group's models, in particular for the Laundries CGU, are sensitive to changes in these assumptions, reducing available headroom in the Facility Services CGUs and increasing the risk of further impairment in the Laundries CGU.</p> <p>The Group has a large number of operating businesses and service lines necessitating our consideration of the Group's determination of CGUs, based on the smallest group of assets to generate largely independent cash inflows and the allocation of goodwill across CGUs.</p> <p>The Group uses complex models to perform their annual testing of goodwill for impairment. The models are largely manually developed, use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, using</p>	<p>Working with our valuation specialists our procedures included:</p> <ul style="list-style-type: none"> • We considered the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards; • We assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas; • We considered the Group's determination of their CGUs based on our understanding of the operations of the Group's business and how independent cash inflows were generated, against the requirements of the accounting standards; • We analysed the Group's internal reporting to assess the Group's monitoring and management of activities, and the consistency of the allocation of goodwill to CGUs; • We compared the forecast cash flows contained in the value in use models to Board approved forecasts; • We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models; • We considered the sensitivity of the models by varying key assumptions, such as forecast growth rates, forecast contract tender outcomes, terminal growth rates and discount rates, within a reasonably possible range, to identify those CGUs at higher risk of impairment and to focus our further procedures; • We challenged the Group's key forecast cash flow growth assumptions. We compared key events to the Board approved plan and strategy;

<p>forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.</p> <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<ul style="list-style-type: none"> • We compared forecast growth rates and terminal growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, their past performance, business and customers, and our industry experience; • We checked the consistency of the growth rates to the Group's stated plan and strategy, past performance of the Group, and our experience regarding the feasibility of these in the industry in which they operate; • We independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in; • We recalculated the impairment charge in the Laundries CGU model against the recorded amount disclosed; and • We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.
Recognition of revenue and disclosures of expected transitional adjustments to AASB 15 Revenue from Contracts with Customers	
Refer to Note 5 <i>Revenue</i> to the Financial Report (\$3,044.6m)	
The key audit matter	How the matter was addressed in our audit
<p>A substantial amount of the Group's revenue relates to revenue from the rendering of services. Where certain contracts have a long-term duration, the Group's policy specifies revenue and margin can be recognised based on the stage of completion of individual contracts. This is predominantly calculated on the proportion of total costs incurred at the reporting date compared to the Group's estimation of total costs of the contract. We focussed on these types of contracts due to the high level of estimation involved, in particular relating to:</p> <ul style="list-style-type: none"> • Forecasting total cost to complete at initiation of the contract, including the 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We evaluated the Group's process regarding accounting for contract revenues. We tested controls such as: <ul style="list-style-type: none"> - Management's review and approval of monthly contract profitability reporting; and - Management's approval of new contracts. • We applied a risk based approach to select a sample of contracts for testing based on a number of quantitative and qualitative factors. These factors included contracts with a significant amount of revenue recorded for a

<p>estimation of cost contingencies for contracting risks;</p> <ul style="list-style-type: none"> • Revisions to total forecast costs for certain events or conditions occurring during the performance of the contract, or are expected to occur to complete the contract; and • The recognition of variations and claims, based on an assessment by the Group as to why it is probable the amount will be approved by the customer and therefore recovered. <p>We focused on this area as a key audit matter due to the number and type of estimation events occurring over the course of the contract life, leading to complex and judgemental revenue recognition from contracts.</p> <p>In addition to the above, the transition to the new accounting standard AASB 15 <i>Revenue from contracts with customers</i> (AASB 15) (with effect from 1 July 2018 for the Group) has resulted in additional disclosure of the expected transition adjustments. We focussed on the transitional disclosures as a key audit matter due to the audit effort required from the:</p> <ul style="list-style-type: none"> • complex nature of the changes to the accounting standard and the impact on services and construction contract accounting requiring senior team involvement; and • consideration of consistency in application of AASB 15 across the contracts of the Group. 	<p>particular contract, multi-element services included in the contract, and long-dated contracts which, give rise to a greater level of judgement required by the Group when assessing forecast costs to complete over the life of the contract. For the sample selected, where relevant:</p> <ul style="list-style-type: none"> - we read the contract terms and conditions to evaluate how the individual characteristics of each contract were reflected in the contract profitability estimate; - we considered the sensitivity of the costs to complete including the estimation of cost contingencies by varying key forecast cost assumptions within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures; - we assessed the Group's ability to forecast margins on contracts by analysing the accuracy of previous margin forecasts to actual outcomes; - we compared revisions to forecast contract costs from forecast costs applied at contract initiation for consistency with current work plans ; - we assessed variations and claims by evaluating the underlying evidence to the Group's assessment of the probability the amount will be approved by the customer; and - we evaluated the Group's legal and external expert's reports received on contentious matters to identify conditions indicating the inappropriate recognition of variations and claims. We checked the consistency of this to the inclusion or not of an amount in the estimates used for revenue recognition. <ul style="list-style-type: none"> • We evaluated disclosures relating to the expected adjustments for transition to AASB 15 as follows: <ul style="list-style-type: none"> - we selected a sample of the contracts assessed by the Group to determine the transitional impacts of the new standard and we evaluated the conclusions reached by the Group using our understanding of
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	<p>the contracts obtained in the procedures noted above, in the context of the requirements of AASB 15; and</p> <ul style="list-style-type: none"> - we compared these disclosures to: <ul style="list-style-type: none"> o amounts included in the Group's underlying calculations for consistency; and o our understanding of the various transitional adjustments and the requirements of the accounting standards.
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Other Information

Other Information is financial and non-financial information in Spotless Group Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Spotless Group Holdings Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 15 to 25 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



James Dent
Partner

Melbourne
16 August 2018

Corporate Governance Statement

The Board of Spotless Group Holdings Limited (the “Board”) is responsible for the overall corporate governance of Spotless. The Board monitors the operational and financial position and performance of Spotless and oversees its business strategy including approving the strategic goals of Spotless and considering and approving an annual budget.

In undertaking its functions, the Board exercises its powers and responsibilities in accordance with Spotless’ Constitution and its Board Charter.

The ASX Corporate Governance Council has developed and released its *Corporate Governance Principles and Recommendations* (“ASX Recommendations”) for listed companies in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The recommendations are not prescriptions, but guidelines. An overview of Spotless’ main corporate governance practices are set out below. The information in this statement relating to the directors, Board committee memberships and other details is current as at the date of this statement.

Details of Spotless’ key policies and practices and the charters for the Board and each of its committees are available at www.spotless.com.

THE BOARD

The Board is comprised of:

- John Humphrey (Chairman)
- Peter Tompkins (Chief Executive Officer & Managing Director)
- Grant Fenn (Non-Executive Director)
- Grant Thorne (Non-Executive Director)
- Michael Ferguson (Non-Executive Director)
- Simon McKeon AO (Non-Executive Director)

Details of the directors’ skills, experience, expertise, qualifications, terms of office, relationships affecting independence, their independence status and membership of committees are set out within this statement and in the Directors’ Report.

Before the Board appoints a new director or puts forward a candidate for election, the Board ensures that appropriate background checks are undertaken. In respect of the election (or re-election) of directors, Spotless provides shareholders with all information that is material to their decision on how to exercise their vote through a number of channels, including via the Notice of Meeting, the director profiles included in the Directors’ Report and other information contained in the Annual Report.

The Board’s objective is to have an appropriate mix of skills, expertise and experience on the Board relevant to Spotless’ businesses and the Board’s responsibilities. The Board considers that its current mix of skills, expertise and experience, as set out in the matrix below, meets this objective.

Corporate Governance Statement (continued)

THE BOARD (Continued)

Skills/Expertise	Industry experience
<ul style="list-style-type: none"> • Business and economics • Construction • Corporate advisory • Corporate governance/compliance • Engineering • Ethical leadership • Executive leadership and management • Financial/accounting • Health and safety • Legal • Mergers and Acquisitions • Metallurgy • Operations • Organisational design • Risk management • Science • Strategy • Sustainability • Tendering 	<p>Extensive experience in Australia and overseas across a range of industries and markets, including:</p> <ul style="list-style-type: none"> • Banking • Education • Engineering • Finance • Infrastructure • Manufacturing • Mining & Resources • Science & Technology • Telecommunications • Transport • Utilities

Upon appointment, each director (and senior executive) receives a letter of appointment which sets out the formal terms of their appointment, along with a deed of indemnity, insurance and access. Directors also attend formal induction sessions where they are briefed on Spotless' vision and values, strategy, financials, and governance and risk management frameworks.

The Company Secretary is accountable to the Board through the Chairman on all matters regarding the proper functioning of the Board. This includes assisting the Board and its Committees with meetings, advising the Board on corporate law and governance matters, and acting as the interface between the Board and senior executives.

The Board considers an independent director to be a non-executive director who is not a member of Spotless' management and who is free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the independent exercise of their judgment. Spotless' Board Charter sets out guidelines of materiality for the purpose of determining independence of directors in accordance with the ASX Recommendations and has adopted a definition of independence that is based on that set out in the ASX Recommendations.

At the date of this statement, Downer holds 87.8% of the issued share capital of Spotless. Due to Downer's majority shareholding, the Board has determined that it is not appropriate to have a majority of directors on the Board who are independent of Spotless' controlling shareholder.

Corporate Governance Statement (continued)

THE BOARD (Continued)

The following non-executive directors, given the roles held with Downer, are not considered to be independent directors for the purpose of the ASX Recommendations:

- Grant Fenn (Non-Executive Director)
- Grant Thorne (Non-Executive Director)
- Michael Ferguson (Non-Executive Director)

Peter Tompkins is the CEO and Managing Director of Spotless and, accordingly, is not considered to be independent.

John Humphrey and Simon McKeon are both considered to be independent for the purpose of the ASX Recommendations

The Board considers that each of the directors brings an objective and independent judgment to the Board's deliberations and that each of the directors makes a valuable contribution to Spotless through the skills they bring to the Board.

BOARD CHARTER

The Board has adopted a formal Charter that details the functions and responsibilities of the Board. The Board Charter also establishes the functions reserved to the Board and those powers delegated to management.

The Board Charter allows the Board to delegate powers and responsibilities to committees established by the Board. The Board retains ultimate accountability to shareholders in discharging its duties.

A copy of the Board Charter is publicly available in the Governance section of Spotless' website at www.spotless.com.

Corporate Governance Statement (continued)

BOARD COMMITTEES

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities.

The Board has established an Audit, Business Risk and Compliance Committee, a Nomination Committee and a People and Remuneration Committee.

Other committees may be established by the Board as and when required.

Audit, Business Risk and Compliance Committee

The role of the Audit, Business Risk and Compliance Committee is to assist the Board in fulfilling its responsibilities for corporate governance and overseeing the Consolidated Entity's internal control structure and risk management systems. The Audit, Business Risk and Compliance Committee also confirms the quality and reliability of the financial information prepared by Spotless, works with the external auditor on behalf of the Board and reviews non-audit services provided by the external auditor, to confirm they are consistent with maintaining external audit independence.

The Audit, Business Risk and Compliance Committee provides advice to the Board and reports on the status and management of the risks to Spotless. The purpose of the committee's risk management process is to ensure that risks are identified, assessed and appropriately managed.

Information on the procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners is contained within Spotless' Audit, Business Risk and Compliance Committee Charter.

The Audit, Business Risk and Compliance Committee must comprise at least three directors, all of whom must be non-executive directors. A member of the Audit, Business Risk and Compliance Committee who does not chair the Board, shall be appointed the Chair of the committee.

The Audit, Business Risk and Compliance Committee meet as often as is required by the Audit, Business Risk and Compliance Committee Charter. The chair of the Audit, Business Risk and Compliance Committee routinely invites other directors, members and representatives of the external auditor to be present at meetings of the committee and seek advice from external advisors. The Audit, Business Risk and Compliance Committee regularly report to the Board about committee activities, issues and related recommendations.

The Audit, Business Risk and Compliance Committee reviews Spotless' risk management framework at least annually to confirm it is both sound and effective. This review took place during 2018.

A copy of the Audit and Risk Management Committee Charter is publicly available in the Governance section of Spotless' website at www.spotless.com.

The committee comprises Simon McKeon (chair), Mr Humphrey, Mr Thorne and Mr Ferguson.

People and Remuneration Committee

The role of the People and Remuneration Committee is to review and make recommendations to the Board with respect to Spotless' human resources policies and obligations, to make recommendations to the Board on remuneration packages and policies related to the directors and senior management and to ensure that the remuneration policies and practices are consistent with Spotless' strategic goals. Independent advice is sought where appropriate.

The People and Remuneration Committee meet as often as is required by the People and Remuneration Committee Charter. Following each meeting, the People and Remuneration Committee report to the Board on any matter that should be brought to the Board's attention and on any recommendation of the People and Remuneration Committee that requires Board approval.

Corporate Governance Statement (continued)

BOARD COMMITTEES (Continued)

People and Remuneration Committee (Continued)

A copy of the People and Remuneration Committee Charter is publicly available in the Governance section of the Company's website at www.spotless.com.

The committee comprises John Humphrey (chair), Mr Mckeon and Mr Ferguson.

Nomination Committee

The Nomination Committee is responsible for reviewing and making recommendations in relation to the composition and performance of the Board and its committees and ensuring that adequate succession plans are in place (including for the recruitment and appointment of directors and senior management). Independent advice will be sought where appropriate.

The Nomination Committee meets as often as required and its recommendations are reported to the Board.

A copy of the Nomination Committee Charter is publicly available in the Governance section of Spotless' website at www.spotless.com.

The committee comprises John Humphrey (chair) and currently comprises all of the other directors of the Board.

DIVERSITY

The workforce of Spotless is made up of individuals with diverse skills, backgrounds, perspectives and experiences and this diversity is recognised, valued and respected. Spotless acknowledges the positive outcomes that can be achieved through a diverse workforce and recognises and utilises the contribution of diverse skills and talent from its workforce. For the purposes of this policy, 'diversity' encompasses (without limitation) diversity of gender, age, ethnicity, cultural background, impairment or disability, sexual orientation and religion.

Spotless has established a Workforce Diversity Policy which is publicly available in the Governance section of the Spotless' website at www.spotless.com.

The policy includes requirements for the Board to set measurable objectives to achieve both gender and broader diversity objectives at employee, executive and Board level and to assess these objectives and the progress against these objectives and report on these on an annual basis.

Corporate Governance Statement (continued)

DIVERSITY (Continued)

The Board has set the following objectives for achieving gender diversity.

Objective	Progress to Objective achievement
Maintain at least 28% female representation on the Board.	Currently, no positions on the Board are held by women.
No less than 25% of senior executive positions will be held by women.	28% of senior executive positions are held by women.
Maintain a 50/50 gender balance in Spotless' workforce composition and strive to promote opportunities for women in 'non-traditional' roles.	Spotless currently has 50/50 female/male representation across the business. The proportion of applications received from female candidates has increased from 45% in 2017 to 48% in 2018. The number of female applicants for grounds and garden and security positions has stayed steady at 11% and 16% respectively and female applicants increased in estate upkeep roles (21% compared to 12% in 2017).
Ensure gender pay equity reviews are undertaken annually.	A gender pay equity review was undertaken in 2018.
Ensure all employees are aware of their rights and responsibilities regarding equal employment opportunity and maintaining a workplace free of sex-based harassment.	Spotless' commitment to equal employment opportunity and a workplace free of sexual and other forms of harassment is enshrined in its Professional Behaviours policy. An abridged version of the policy is also available in seven other languages in recognition of our diverse workforce. In July 2018, Spotless instituted a policy in which employees are required to complete Professional Behaviours policy refresher training every two years.

"Senior executive personnel" are defined to include the executive KMP, Support Service General Managers, Sector General Managers as well as state and national Operations Managers.

Every year, Spotless complies with its reporting obligations under the *Australian Workplace Gender Equality Act 2012* (Cth). A copy of the report is publicly available from Spotless' website at www.spotless.com.

DISCLOSURE AND SHAREHOLDER COMMUNICATION POLICIES

As a company listed on ASX, Spotless is required to comply with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act 2001*. Spotless is required to disclose to the ASX any information concerning Spotless which is not generally available and which, if it was made available, a reasonable person would expect to have a material effect on the price or value of Spotless' securities.

The Board aims to ensure that shareholders and stakeholders are informed of all major developments affecting Spotless' state of affairs. As such, Spotless has adopted a Disclosure Policy and Shareholder Communication Policy, which together establish procedures to ensure that directors and senior management are aware of, and fulfil, their obligations in relation to providing timely, full and accurate disclosure of material information to Spotless' stakeholders and comply with Spotless' disclosure obligations under the *Corporations Act 2001* and ASX Listing Rules. The Disclosure Policy also sets out procedures for communicating with shareholders, the media and the market.

The Board's aim is to ensure that shareholders are provided with sufficient information to assess the governance and performance of Spotless and that they are informed of all major developments affecting the state of affairs of Spotless relevant to shareholders in accordance with all applicable laws. Information will be communicated to shareholders through the lodgment of information with the ASX required by Spotless' continuous disclosure obligations and publishing information on Spotless' website. Shareholders are given the option of receiving shareholder communications electronically from our share registry.

Corporate Governance Statement (continued)

DISCLOSURE AND SHAREHOLDER COMMUNICATION POLICIES (Continued)

The Shareholder Communication Policy is designed to promote effective communication with shareholders and other Spotless stakeholders and to encourage effective participation of relevant parties at general meetings. The Shareholder Communication Policy supplements the Disclosure Policy.

Copies of Spotless' Disclosure Policy and Shareholder Communication Policy are publicly available in the Governance section of Spotless' website at www.spotless.com.

SHARE TRADING POLICY

Spotless has adopted a Share Trading Policy which applies to Spotless and its directors, company secretary and senior management and other persons nominated by the Board from time to time (**Relevant Persons**).

The policy is intended to explain the types of conduct in relation to dealings in shares that is prohibited under the Corporations Act and establish procedures in relation to dealings in shares by Relevant Persons.

The Share Trading Policy defines certain "closed periods" during which trading in Shares by Relevant Persons is prohibited. Those closed periods are currently defined as any of the following periods:

- the period commencing six weeks prior to the release of Spotless' half year results to the ASX and ending 24 hours after such release;
- the period commencing six weeks prior to the release of Spotless' full year results to the ASX and ending 24 hours after such release;
- the period commencing two weeks prior to Spotless' annual general meeting and ending 24 hours after the annual general meeting; or
- any other period that the Board designates as a "closed period" for the purposes of this policy, such as a period during which Spotless is involved in corporate transactions that may have a material impact on the price of Spotless' listed securities.

Outside of these periods, Relevant Persons must receive clearance for any proposed dealing in securities.

In all instances, buying or selling securities is not permitted at any time by any person who possesses price-sensitive information.

CODE OF CONDUCT

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a Code of Conduct, which sets out the way Spotless conducts business. Spotless carries on business honestly and fairly, acting only in ways that reflect well on Spotless in strict compliance with all laws and regulations.

The policy document outlines Spotless' employees' obligations of compliance with the Code of Conduct, and explains how the Code of Conduct interacts with Spotless' other corporate governance policies.

Responsibilities include protection of Spotless' business, using Spotless' resources in an appropriate manner, protecting confidential information and avoiding conflicts of interest.

A copy of Spotless' Code of Conduct is publicly available in the Governance section of Spotless' website at www.spotless.com.

BOARD AND COMMITTEE MEETING FREQUENCY AND ATTENDANCE

The number of Board and Board committee meetings held during the reporting period along with the attendance by directors is set out in the Directors' Report under Directors' Meetings.

Corporate Governance Statement (continued)

SENIOR EXECUTIVE PERFORMANCE

Spotless' Board Charter details a process for the review of the performance of the Chief Executive Officer.

The performance of Spotless' senior executives is reviewed annually through a formal performance review process to ensure that executives continue to perform effectively in their roles. Performance is measured against goals set at the beginning of each financial year.

PERFORMANCE OF THE BOARD, ITS COMMITTEES AND INDIVIDUAL DIRECTORS

Spotless' Board Charter details a process for the review of Board, committee and individual directors' performance.

ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

Directors may obtain independent professional advice at Spotless' expense on matters arising in the course of their Board and committee duties, after obtaining the Chairman's approval.

PROCEDURE FOR THE SELECTION OF AND APPOINTMENT OF DIRECTORS

A description of the procedure for the selection and appointment of new directors to the Board and the re-election of incumbent directors and the Board's policy for the nomination and appointment of directors is contained within the Company's Nomination Committee Charter and Board Charter.

REMUNERATION ARRANGEMENTS

Board and Non-Executive Director

The remuneration policy for the Board and the remuneration of each director is set out in the Remuneration Report which forms part of the Directors' Report.

The Board has also adopted a policy prohibiting the directors and senior executives from entering into transactions or arrangements which limit the economic risk of participating in unvested remuneration entitlements.

Senior executives

Information on the structure of remuneration for Spotless' Key Management Personnel can be found in the Remuneration Report, which forms part of the Directors' Report.

EXTERNAL AUDITOR

The Company's external auditor, KPMG was appointed in 2017.

KPMG attends Spotless' Annual General Meeting and a representative is available to answer questions from shareholders relevant to the audit at, or ahead of, the Annual General Meeting. KPMG's independence declaration is contained in the Directors' Report.

Corporate Governance Statement (continued)

RISK

The Board, with the guidance of the Audit, Business Risk and Compliance Committee, is responsible for:

- approving policies on and overseeing the management of business and financial and non-financial risks;
- reviewing and monitoring processes and controls to maintain the integrity of accounting and financial records and reporting; and
- approving financial results and reports for release and dividends to be paid to shareholders.

Spotless' Audit, Business Risk and Compliance Committee Charter also provides that the committee's specific function with respect to risk management is to review and report to the Board that:

- Spotless' ongoing risk management program effectively identifies all areas of potential risk;
- adequate policies and procedures have been designed and implemented to manage identified risks;
- a regular program of audit is undertaken to test the adequacy of and compliance with prescribed policies; and
- proper remedial action is undertaken to redress areas of weakness.

Both the Board Charter and the Audit, Business Risk and Compliance Committee Charter are publicly available in the Governance section of Spotless' website at www.spotless.com.

Spotless seeks to take and manage risk in ways that will generate and protect shareholder value and recognises that the management of risk is a continual process and an integral part of the management and corporate governance of the business.

Spotless acknowledges that it has an obligation to all stakeholders, including shareholders, customers, employees, contractors and the wider community and that the efficient and effective management of risk is critical to the Spotless meeting these obligations and achieving its strategic objectives.

Spotless' key economic, environmental and social sustainability risks, together with our approach to managing those risks, is outlined in the Operating and Financial Review section in our Directors' Report.

Spotless' Internal Audit function provides objective assurance on the adequacy and effectiveness of the group's systems for risk management, internal control and governance, along with recommendations to improve the efficiency and effectiveness of these systems and processes. The Internal Audit function reports to the CFO.

Written Affirmations

Prior to the Board's approval of the financial statements of Spotless in respect of the year ended 30 June 2018, the CEO and CFO provided a declaration to the Board that, in their opinion, the financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of Spotless, and their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. These assurances were given for both the half year results and full year results.

Shareholder Information

as at 8 October 2018

Spotless has one class of shares on issue, being ordinary shares. All of Spotless' shares are listed on the Australian Securities Exchange.

Distribution of shareholders

The distribution of the number of holders of shares is as follows:

Size of holding	Number of shareholders	Number of shares held	% of issued capital
1 – 1,000	404	161,488	0.01
1,001 – 5,000	271	779,864	0.07
5,001 – 10,000	116	898,986	0.08
10,001 – 100,000	146	3,834,318	0.35
100,001 – and over	17	1,096,565,226	99.49
Total	954	1,102,239,882	100

The number of security investors holding less than a marketable parcel of 353 securities (\$1.420 on 08/10/2018) is 193 and they hold 5,042 securities.

There are 4,142,575 unquoted options on issue under the Spotless executive Long-Term Incentive Plan.

Twenty largest shareholders

The names of the 20 largest holders of shares are as follows:

Rank	Name	Number of shares held	% of issued capital
1	DOWNER EDI SERVICES PTY LTD	582,005,214	52.80
2	DOWNER EDI LIMITED	385,779,103	35.00
3	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	88,664,299	8.04
4	CITICORP NOMINEES PTY LIMITED	35,769,809	3.25
5	NATIONAL NOMINEES LIMITED	1,230,063	0.11
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	554,313	0.05
7	SUSAN MALENA WILLIAMS	532,730	0.05
8	MR SIMON MCKEON	500,000	0.05
9	JODRIK PTY LTD	400,000	0.04
10	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	259,864	0.02
11	NULIS NOMINEES (AUSTRALIA) LIMITED	216,297	0.02
12	CS FOURTH NOMINEES PTY LIMITED	210,180	0.02
13	BROS NOMINEES PTY LTD	200,000	0.02
14	MR RICHARD PHILIP WILKINS	155,000	0.01
15	G H KLUGE & SONS LTD	150,000	0.01
16	MS WENDY KAY PERRIN & MR CAREY NOLAN AVIS & MR JOHN GRAEME COX	148,534	0.01
17	C V M & CO PTY LTD	100,000	0.01
	DAVID RICARDO ASSET MANAGEMENT PTY LTD	98,888	0.01
18	MR BRADLEY DAVID PERRETT	95,441	0.01
19	J P MORGAN NOMINEES AUSTRALIA LIMITED	95,047	0.01
20	CUSTODIAL SERVICES LIMITED	73,875	0.01

Shareholder Information (continued)

Substantial holders

The names of the substantial holders in Spotless are as follows:

	Name	Date of most recent notice	Relevant interest in shares	% of issued capital
1	Downer EDI Limited	29/8/17	967,784,317	87.80%
2	Coltrane Master Fund LP	11/5/17	Up to 116,838,996	Up to 10.64%

Voting rights

Every shareholder present in person or by an attorney, a proxy or a representative shall on a show of hands, have one vote and upon a poll, one vote for every fully paid ordinary share held.

CORPORATE DIRECTORY

Spotless Group Holdings Limited
ABN 27 154 229 562

DIRECTORS

John Humphrey (Chairman)
Dana Nelson (Chief Executive Officer and Managing Director)
Simon McKeon
Grant Fenn
Grant Thorne
Michael Ferguson

COMPANY SECRETARY

Paul Morris

AUDITOR

KPMG
Tower Two, Collins Square
727 Collins Street
Melbourne, VIC, 3008, Australia

SECURITY EXCHANGE LISTING

Spotless Group Holdings Limited (SPO)
– Australian Securities Exchange (ASX)

SHARE REGISTRY

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW, 2000, Australia
Telephone: +61 1300 554 474
Fax: +61 2 9287 0303

REGISTERED OFFICE

Australia
Spotless Group Holdings Limited
549 St Kilda Rd,
Melbourne, VIC, 3004, Australia
Telephone: +61 3 9269 7600

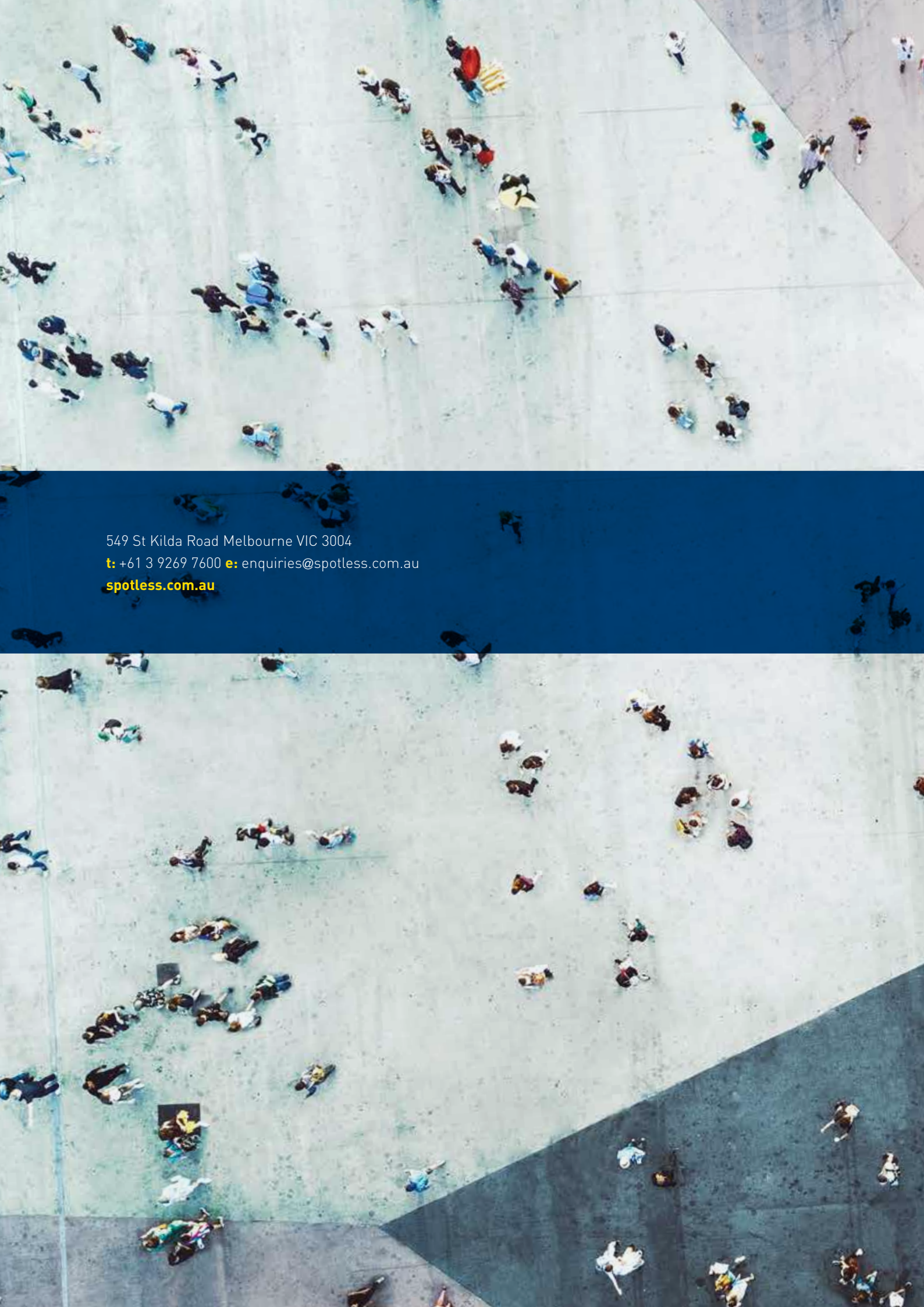
CORPORATE WEBSITE

<http://www.spotless.com>



Our business is founded on the deeply held value of Zero Harm. We firmly believe that any injury or disease is unacceptable and preventable. The health and safety of our people and communities is always our top priority.





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