



ANNUAL REPORT

2016/2017



 **SPOTLESS**
Integrated Facilities Services

CONTENTS

Directors' Report.....	1
Consolidated Statement of Profit or Loss and Other Comprehensive Income.....	30
Consolidated Statement of Financial Position	31
Consolidated Statement of Changes in Equity.....	32
Consolidated Cash Flow Statement	33
Notes to the Financial Statements for the Year Ended 30 June 2017	34
Audit Independence Declaration	86
Directors' Declaration.....	87
Auditor's Report.....	88
Corporate Governance Statement.....	94
Shareholder Information	103
Corporate Directory	104

Directors' Report

The Directors hereby present their report for the year ended 30 June 2017. 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

Garry Hounsell

Chairman, Independent Non-Executive Director

BBus (Acc), FCA, CPA, FAICD

Garry was appointed Chairman of Spotless in February 2017. He is also Chairman of the Audit, Business Risk and Compliance Committee and a member of the People and Remuneration Committee. Garry is a Director of DuluxGroup Limited, and Treasury Wine Estates Limited; as well as being Chairman of Helloworld Limited.

Garry has also served as a Director of Qantas Airways Limited, Orica Limited, Nufarm Limited and Integral Diagnostics Limited, Deputy Chairman of Mitchell Communication Group Limited and Chairman of PanAust Limited and eMitch Limited. Garry was also a former senior Partner of Ernst & Young, Chief Executive Officer and country Managing Partner of Arthur Andersen and a Board Member of law firm Freehills (now Herbert Smith Freehills).

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.

Dana has been the Chief Operating Officer ("COO") of Spotless since July 2015. In her role as COO she has 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.

Simon McKeon AO

Non-Executive Director

BCom, LLB

Simon was appointed a Non-Executive Director in December 2016. He is Chairman of the People and Remuneration Committee, and is also a member 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 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.

Directors' Report (continued)

Director Profiles (continued)

Simon is presently Chairman of the Group of Eight's Industry and Innovation Board, 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 serves on its Science, Medical Research and Technology Panel. He is on the Advisory Boards of The Big Issue and Blackmagic Design.

Philip Garling

Non-Executive Director

B.Build, FAIB, FAICD, FIE (Aust)

Philip 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.

He has over 35 years' experience in the infrastructure, construction, development and investment sectors. He was most recently the Global Head of Infrastructure at AMP Capital Investors, which is a role he held for nine years. Prior to this, Philip was CEO of Tenix Infrastructure and a long-term senior executive at the Lend Lease Group, including five years as CEO of Lend Lease Capital Services. Philip has been a Non-Executive Director of Downer EDI Limited ("Downer") since 2011.

Grant Thorne

Non-Executive Director

BSc (Hons), PhD, FAusIMM, GAICD

Grant 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.

He has more than 36 years in the mining and extractive industry with Rio Tinto, serving in senior operational and executive roles both in Australia and internationally. He is a former Managing Director Coal and Allied Industries, and former Director of JK Tech, Queensland Energy Resources Limited and the Wesley Research Institute. Grant has been a Non-Executive Director of Downer EDI Limited since 2010.

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)

Professor John Humphrey

Non-Executive Director

LLB

John 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.

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 the Chairman of both Horizon Oil Limited and Auswide Bank Limited. He is also a former member of the Australian Takeovers Panel.

Margaret Jackson

Chairman, Independent Non-Executive Director

Retired effective 22 February 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.

Rob Koczkar

Non-Executive Director

Retired effective 30 September 2016.

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

Name	Board (Monthly Meeting)		Board (Short Notice Meeting)		Audit, Business Risk and Compliance Committee		People and Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
Garry Hounsell	9	9	17	17	4	4	2	2	2	2
Martin Sheppard	9	9	17	17	-	-	-	-	2	2
Simon McKeon	6	6	16	16	1	1	-	-	2	2
Philip Garling	-	-	-	-	-	-	-	-	-	-
Grant Thorne	-	-	-	-	-	-	-	-	-	-
Michael Ferguson	-	-	-	-	-	-	-	-	-	-
Professor John Humphrey	-	-	-	-	-	-	-	-	-	-
Dana Nelson	-	-	-	-	-	-	-	-	-	-
Margaret Jackson	5	5	1	1	3	3	3	3	1	1
Diane Grady	9	8	17	16	-	-	5	5	2	2
The Hon. Nick Sherry	9	9	17	16	4	4	5	5	2	2
Julie Coates	9	9	17	17	-	-	1	1	2	2
Rob Koczkar	1	1	1	-	-	-	1	1	-	-

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 - 1,484,088 options
- Simon McKeon AO - 500,000 shares

Principal activities

The principal activities of Spotless Group Holdings Limited and its subsidiaries during the year ended 30 June 2017 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 2017

- Sales Revenue of \$3,006.3m, down 5.3% from the prior corresponding period reflecting prior period lost contracts and scope reductions, partially offset by the contribution from newly mobilised Public Private Partnerships ("PPPs") contracts.
- EBITDA of \$(199.2)m was significantly impacted by \$464.3m of impairments, asset write-downs, takeover and transaction costs and other restructuring items following the restructure of the existing contract portfolio.
- Contract renewal rates continued to improve to 93% by number and 76% by annual value. New contract wins also increased during the period to 66% by number and 21% by annual value.
- Net loss after tax of \$(347.4)m includes \$436.4m of items (after tax) primarily relating to the contract portfolio restructure and takeover costs, and \$4.9m of post-tax benefits comprising net acquisition related settlements (+\$2.3m), re-measurement of deferred tax liabilities (+\$4.3m) and other items (+\$1.6m) net of the loss on the disposal of MV Epicure (-\$1.8m) and the exit costs of a major Resources contract (-\$1.5m).
- Operating cash flows of \$190.6m demonstrated significant improvement in working capital management and cash collections and, together with decreased net capital expenditure, represent a \$119.8m improvement in free cash flow (before payments for acquisitions) from the prior corresponding period.
- Net debt of \$782.3m declined \$65.8m from December 2016 and \$7.5m from June 2016, reflective of the recovery of working capital invested in 1H17, revision of the dividend payout ratio and improved capex management. The Group's net leverage ratio was 2.9x (based on last 12 months EBITDA and allowable adjustments for the purposes of debt covenant metrics) at 30 June 2017.

Year Ended 30 June	2017 \$m	2016 \$m	Change %
Sales Revenue	3,006.3	3,176.1	(5.3)
EBITDA	(199.2)	311.6	(>100)
EBIT	(310.9)	207.8	(>100)
(Loss) / Profit after tax	(347.4)	122.2	(>100)
Basic (losses) / earnings per share (cents)	(31.6)	11.1	(>100)
Final dividend per share (cents)	-	5.0	-
Operating cash flow	190.6	141.7	34.5
Net debt	782.3	789.8	(0.9)
Net leverage ratio ¹	2.9x	2.4x	

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

Directors' Report (continued)

Review of Operations

Contract Portfolio Restructure

Further to the Strategy Reset announced in 1H17, Spotless undertook a detailed review of its contract book and identified potential areas to unlock value. Whilst the business has a strong portfolio of contracts, growth is constrained by a large number of contracts which are inconsistent with the attributes identified as desirable in the Strategy Reset, including long lived, multi-service, expandable customer partnerships. Reducing poor performing and single service contracts over time allows for a focus on long-dated, expandable, multi-service contracts.

This program provides the platform for growth by simplifying our business model, reducing complexity and overheads, and leveraging our strengths to drive organic growth.

The restructure has resulted in a largely non-cash accounting charge of \$451.6m (pre-tax) representing goodwill impairment, software development intangibles write-downs, Property, Plant and Equipment ("P,P&E") write-downs and provisions for contracts that become onerous.

The rationalisation of non-core contracts will be undertaken progressively, with the majority being continued until maturity and not renewed, while we are also exploring the sale of certain contract bundles.

Operational Highlights

Facility Services

Revenue growth was driven by the commencement of new PPPs and the acquisition of Nuvo in October 2016. However, this growth was more than offset by lower volumes across mining camps, a slowdown in AE Smith construction projects and exited contracts as part of the portfolio restructure. The net result was a 4.4% revenue reduction compared with the prior year.

Earnings were impacted by lost contracts that were delivering higher than average group margins, demobilisation costs on lost contracts (including Rio Tinto) and margin reductions across certain renewed contracts. This was partially offset by contracts exited as part of the portfolio restructure, resulting in margin improvement. The broader non-cash accounting charge ultimately takes earnings into a loss position.

Laundries

The Laundries segment experienced a challenging 1H17 with lower volumes across hospitality linen. This stabilised in 2H17, however, full year sales reduced \$19.1m compared to FY16. While yields were lower, upgrades to plant infrastructure and machinery in FY17 drove productivity improvements across plants.

Directors' Report (continued)

Statutory Results

Statutory sales revenue decreased from June 2016 largely driven by prior year contract losses, partially offset by strong contributions from the Defence sector, PPPs and the recently acquired Nuvo business.

EBITDA for the period has been significantly impacted by \$441.5m of items recorded largely as a result of the contract portfolio restructure undertaken as part of the strategy reset to focus on long-dated, expandable, multi-service contracts. These items for the period include:

- Goodwill impairment of \$315.7m relating to businesses most impacted by the restructure;
- Software development intangible asset write-downs of \$15.1m;
- P,P&E write-downs of \$38.5m;
- Other asset write-downs of \$32.1m;
- Onerous contract provisions of \$20.0m;
- Other provisions and accruals of \$16.7m; and
- Restructuring costs of \$3.4m.

Significant costs amounting to \$22.8m (\$21.9m after tax) were also incurred on transactions (including takeover defence) during the year.

The result also includes net \$4.9m of post-tax benefits comprising net acquisition related settlements (+\$2.3m), re-measurement of deferred tax liabilities (+\$4.3m) and other items (+\$1.6m) net of the loss on the disposal of MV Epicure (-\$1.8m) and the exit costs of a major Resources contract (-\$1.5m).

Depreciation and amortisation expense increased by 7.6% from June 2016 driven by FY16 capital expenditure and the completion of the SAP system roll out.

Operating Segments

Facility Services

	2017 \$m	2016 \$m	Change %
Facility Services Sales Revenue	2,782.1	2,909.7	(4.4)
Facility Services EBITDA	(64.1)	279.0	(>100)
Depreciation	(39.3)	(34.1)	15.2
Facility Services EBITA	(103.4)	244.9	(>100)
Facility Services EBITDA Margin	(2.3)%	9.6%	
Facility Services EBITA Margin	(3.7)%	8.4%	

Revenue growth was driven by the commencement of new PPPs and the acquisition of Nuvo in October 2016. However, this growth was more than offset by lower volumes across mining camps, a slowdown in AE Smith construction projects and exited contracts as part of the portfolio restructure. The net result was a 4.4% revenue reduction compared with the prior year.

Reported EBITDA for Facility Services was significantly impacted by \$310.3m of portfolio restructuring during the period. Excluding these items, EBITDA decreased by \$32.8m / 11.8% from the prior year attributable to the above mentioned revenue losses, costs associated with the exit of the Rio Tinto contract and underperformance of smaller, single service contracts. Increased investment in business development and innovation, which are expected to deliver benefits in the future, also negatively impacted the result. Partially offsetting these decreases were several smaller contract wins, a strong performance from the Defence sector and the commencement of operations and strong margins across the PPP portfolio.

EBITDA margins reduced from the comparative period reflecting the above mentioned restructuring costs, changes in mix in the existing portfolio and reduced margins across some renewed contracts.

Directors' Report (continued)

Operating Segments (continued)

Laundries

	2017 \$m	2016 \$m	Change %
Laundries Sales Revenue	276.2	295.3	(6.5)
Laundries EBITDA	(64.5)	71.4	(>100)
Depreciation (including rental stock)	(52.6)	(48.4)	8.7
Laundries EBITA	(117.1)	23.0	(>100)
Laundries EBITDA Margin	(23.4)%	24.2%	
Laundries EBITA Margin	(42.4)%	7.8%	

Sales revenue from the Laundries segment of \$276.2m decreased by \$19.1m or 6.5% from the prior year, driven by lower yields and partially offset by higher volumes in a number of states.

Reported EBITDA has been affected by \$127.1m of portfolio restructuring and other costs during the period. Excluding these items, EBITDA decreased by \$8.8m / 12.3% from the prior year attributable to margin pressure on new and existing contracts, particularly within hospitality linen; and partially offset by productivity improvements across several plants as a result of capital investments into machinery upgrades.

Cash Flow

	2017 \$m	2016 \$m	Change %
Operating Cash Flow	190.6	141.7	34.5
Investing Activities			
Net investments for P,P&E, IT ¹ systems and capitalised contract costs	(71.3)	(142.2)	(49.9)
<i>Facility Services – P,P&E and capitalised contract costs</i>	(25.4)	(64.1)	(60.4)
<i>Laundries – P,P&E and capitalised contract costs</i>	(8.2)	(14.0)	(41.4)
<i>Laundries – rental stock</i>	(31.5)	(46.1)	(31.7)
<i>Laundries – asset sales</i>	10.4	-	-
<i>Corporate – P,P&E and IT Systems</i>	(12.2)	(20.6)	(40.8)
<i>Other</i>	(4.4)	2.6	(>100)
Free Cash Flow before acquisitions	119.3	(0.5)	>100

¹ Information technology

Operating cash flows improved significantly from the prior year despite the reduced EBITDA. The \$119.8m increase was driven by a strong focus on working capital resulting in improved cash collections and recovery of working capital invested in the FY15 and FY16 acquired businesses.

Total capital expenditure reduced by \$70.9m / 49.9% following the completion of the SAP development project, mobilisation of several PPP contracts and general tightening of capital expenditure levels across both Facility Services and Laundries.

Directors' Report (continued)

Balance Sheet

Key Balance Sheet Metrics	2017 \$m	2016 \$m	Change %
Current Assets	522.0	532.9	(2.0)
Non-current Assets	1,390.0	1,708.0	(18.6)
- Goodwill	753.4	1,032.0	(27.0)
- P,P&E and Other	636.6	676.0	(5.8)
Current Liabilities	1,346.5	421.4	>100
Non-current Liabilities	144.7	992.2	(85.4)
Net current Assets	(824.5)	111.5	(>100)
Net Assets	420.8	827.3	(49.1)
Net Debt	782.3	789.8	(0.9)

Balance sheet movements in the year were significantly impacted by the various impairments, asset write-downs and additional provisions and accruals required following the contract portfolio restructure undertaken during the year.

The balance sheet movements also incorporate the impact of the Nuvo acquisition. A number of other balance sheet items were also impacted by the provisional purchase price accounting and consolidation of this acquisition. Refer to Note 21 to the financial statements for more detail.

Debt Management and Liquidity

	2017	2016
Net Leverage Ratio ¹	2.9x	2.4x
Interest Cover Ratio ¹	7.3x	8.8x
Weighted Average Committed Debt Facility Maturity	1.9	2.6

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

Net debt declined \$65.8m from December 2016 and \$7.5m from June 2016. This is reflective of:

- the investment and subsequent recovery of invested net working capital following the Group mobilising seven PPP contracts;
- improved cash collections in the second half of FY17;
- revision of the dividend payout ratio to 40% - 60% to align with international and domestic peers; and
- improved capital budgeting management.

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

The Group has committed debt facilities of \$1,055.9m of which \$830.9m were drawn at 30 June 2017.

Directors' Report (continued)

Reconciliation of Statutory Results to Operating Segments Results

	2017	2016
	\$m	\$m
Facility Services Revenue	2,782.1	2,909.7
Laundries Revenue	276.2	295.3
Inter-segment Revenue	(52.0)	(28.9)
Statutory Sales Revenue	3,006.3	3,176.1
Facility Services EBITDA	(64.1)	279.0
Laundries EBITDA	(64.5)	71.4
Unallocated Corporate Overheads EBITDA	(70.6)	(38.8)
Statutory EBITDA	(199.2)	311.6
Facility Services Depreciation	(39.3)	(34.1)
Laundries Depreciation	(52.6)	(48.4)
Unallocated Corporate Overheads Depreciation	(3.6)	(5.1)
Statutory Depreciation	(95.5)	(87.6)
Facility Services EBITA	(103.4)	244.9
Laundries EBITA	(117.1)	23.0
Unallocated Corporate Overheads EBITA	(74.2)	(43.9)
Statutory EBITA	(294.7)	224.0

Outlook

The Group will continue to pursue growth opportunities in its core markets including Defence, Government, Health, Education and PPPs.

A number of new contract wins and good renewal rates will provide positive momentum into FY18.

On 21 March 2017, Downer announced an offer, through its wholly owned subsidiary Downer EDI Services Pty Ltd, to acquire all of the issued share capital of Spotless which it did not already own.

At the date of this report, Downer holds 87.5% of the issued shares of Spotless.

In its Bidder's Statement dated 21 March 2017, Downer set out its intentions if it acquired more than or less than 90% of all Spotless shares.

In the event Downer acquires a relevant interest of 90% or more of Spotless, it is entitled to proceed to compulsory acquisition of the remaining Spotless shares under the Corporations Act. It is intended that Downer would proceed with acquisition of remaining Spotless shares and arrange for Spotless to be removed from the official list of the ASX.

Directors' Report (continued)

Outlook (continued)

In the event Downer acquires a relevant interest of less than 90%, its intentions include:

- continued consideration of Spotless' dividend policy and capital management policy to determine whether these are adequate, sustainable, or appropriate for Spotless, having regard to current and future earnings, debt levels, bonding requirements, capital and other commitments. Downer noted this review may lead to a number of outcomes, including the need for Spotless to raise additional equity, including from its shareholders, or to reduce its dividends, or a combination of both; and
- seeking to engage with the Spotless Board with a view to reaching agreement to undertake a broad-based general review of Spotless' corporate structure, assets, businesses and operations. The outcome of this general review may result in changes to the structure of the operating businesses, including changes to the way the businesses are managed or operated and the possible divestment of certain assets or businesses.

On 18 July 2017, four Downer nominees were appointed to the Spotless Board and three Spotless Non-executive Directors resigned from the Spotless Board. Downer has consequently had majority representation on the Spotless Board since 19 July 2017.

Defined Terms

Spotless' financial statements for the year ended 30 June 2017 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

EBITA	Earnings before interest, tax and amortisation.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Free Cash Flow	Net cash flows from operating activities plus net cash flows from investing activities.
Gearing	Measured as Net Debt divided by Net Debt plus equity.
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 debt facility agreements).
Sales Revenue	Sales Revenue comprises total revenue excluding other income.

Directors' Report (continued)

Significant changes in state of affairs

Effective 21 March 2017, Downer announced that its wholly owned subsidiary, Downer EDI Services Pty Ltd ("Downer Services"), had launched an all cash takeover offer of \$1.15 per ordinary share for Spotless shares not already owned by Downer. On 18 July 2017, the Spotless Board recommended that Spotless shareholders accept the Downer offer. As at 30 June 2017, Downer had obtained greater than 50% of the issued ordinary shares of Spotless and as at the date of this report holds 87.5%.

There has not been any other significant change in the state of the affairs of the Group during the financial year.

Significant events subsequent to balance date

On 1 July 2017, the Group acquired the assets and associated customer contracts of Cabrini Health Limited's laundry business. The impact of this acquisition is not reflected in the balance sheet or results of the Group as at 30 June 2017 as the transaction occurred after reporting date.

Other than the above, 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.

Going concern

As at 30 June 2017, the consolidated statement of financial position of the Group reflects a net current asset deficiency of \$824.5m. This is attributable to the reclassification of the Group's external debt facilities to current liabilities following Downer acquiring ownership of more than 50% of the issued share capital of Spotless on 27 June 2017. Under the Group's Syndicated Facility Agreements and Bilateral Facility Agreements ("the Facility Agreements"), a change of control gives rise to an unconditional right for the Facility Agreement lenders ("the Lenders") to trigger a review event ("Review Event") which may result in the early repayment of the outstanding drawn debt and committed facilities, despite not yet being at maturity. As at 30 June 2017, a waiver of this Review Event right had not been obtained from the Lenders.

The following matters have been considered by the Directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- Subsequent to year-end, but before the signing of the financial statements, the Group sought and was granted, a waiver from the Lenders to extend the Change of Control trigger to 90% of the issued share capital of Spotless;
- The Group's existing Facility Agreements (other than the \$50 million single currency revolving cash advance facility) have contractual maturities beyond twelve months;
- All financial covenants under existing debt facilities have been met;
- The Group has forecast positive free cash flows in FY18 and beyond, which is sufficient to service existing obligations in the ordinary course of business, including repayment of the \$50 million single currency revolving cash advance facility which matures on 11 July 2018; and
- In the event the 90% ownership threshold is achieved by Downer, which may occur anytime in the next twelve months, the Change of Control clause will be triggered in the Facility Agreements, which will give rise to an unconditional right for the Lenders to trigger a Review Event.

At 90% ownership of the issued share capital of Spotless, Downer is entitled to compulsorily acquire the remaining issued share capital. Accordingly, Spotless will rely on the ability of Downer to successfully renegotiate and/or refinance the Facility Agreements. Should the Lenders initiate a Review Event and Spotless and/or its ultimate parent entity and the Lenders fail to agree appropriate amendments within 30 days of the Review Event notice (unless mutually extended), then the relevant Lenders may request early repayment of all amounts owing under the Facility Agreements (including cancellation of all outstanding commitments) 90 days after issuing the Review Event notice.

Directors' Report (continued)

Going concern (continued)

Whilst no formal refinancing arrangement is currently in place, in the event Spotless and/or its ultimate parent entity are unable to refinance or refinance within the time limits specified under the Facility Agreements, alternative funding sources would be considered, including the ability of the Group to draw upon funding from shareholders through intercompany borrowings or via a capital raising.

Notwithstanding these uncertainties, the financial statements have been prepared on a going concern basis and no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

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 6 to 11.

Dividends

The Directors have determined not to pay a final dividend for the year ended 30 June 2017.

On 6 April 2017, the Group paid an unfranked interim dividend for the 2017 financial year of 1.35 cents per ordinary share (2016: 3.5 cents), amounting to \$14.8m (2016: \$38.4m).

On 30 September 2016, the Group paid a final dividend for the financial year ended 30 June 2016 of 5.0 cents per ordinary share (franked to 1.5 cents per share), amounting to \$54.9m.

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

Share options

6,791,884 share options and rights were granted to senior executives of the Group during the year ended 30 June 2017. These share options and rights vested during the year ended 30 June 2017.

Share issues

On 16 May 2017, 113,785 ordinary shares were issued as a result of the exercise of rights under the Spotless Executive Incentive Plan.

On 13 July 2017, 445,962 ordinary shares were issued as a result of the exercise of rights 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.

Directors' Report (continued)

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 2017, 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 2017 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, Ernst & Young 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 Ernst & Young during or since the financial year.

Auditor's independence declaration

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

Non-audit services

Ernst & Young, the external auditor to the Group, provided non-audit services to the Group during the year ended 30 June 2017. 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.

Ernst & Young received or are due to receive \$1,045,645 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 2017.

Year in review

In FY17, we implemented a number of the key pillars of the strategy reset focused on accelerating organic growth by growing long-term, multi-service, expandable contracts.

Key highlights for the financial year include:

- Strong contributions from newly mobilised PPP contracts, Defence and the newly acquired Nuvo business;
- Contract renewal rates continued to improve to 93% by number and 76% by annual value. New contract wins also increased during the period to 66% by number and 21% by annual value;
- Significant improvement in operating cash flows (+34.5% from FY16); and
- Reduction in net debt levels from June 2016.

I would like to acknowledge retiring Spotless Board members; Diane Grady, Nick Sherry and Julie Coates for their dedication and contribution to the business over several years. In particular, Diane Grady for her significant contribution as Chair of the People and Remuneration Committee.

Response to first strike

After having received a 'first strike' at the 2016 Annual General Meeting ("AGM"), we listened to feedback from investors and proxy advisors, and with the assistance of external remuneration consultants, the People and Remuneration Committee has conducted a comprehensive review of Spotless' remuneration framework.

Several changes to components of the remuneration framework were made as a result of the review in order to address shareholders' concerns and to further support the strategic initiatives of the Company. The outcome of this review and a formal response to the key issues raised regarding the FY16 Remuneration Report are set out at section 2 of this report.

The takeover by Downer will likely result in additional changes to the remuneration framework going forward.

Spotless remains committed to ensuring that its executive remuneration framework and outcomes attract and retain high calibre people and drive strong individual and group performance in the interest of both the Company and its shareholders.

FY17 remuneration outcomes

The key remuneration outcomes for FY17 include:

- No Fixed Annual Remuneration ("FAR") increases for CEO or CFO for FY17;
- Short-Term Incentive ("STI") vesting of 34.2% of target STI reflecting achievement of a number of operational and safety metrics but revenue and NPAT targets were not achieved;
- The Downer takeover triggered automatic vesting of unvested awards under the Long-Term Incentive ("LTI") plan; and
- An 8.5% decrease in the fee for the incoming Chair effective from the date of appointment to the role.

The Board recognises the support you have shown and is focused on continuing to deliver the key pillars of the strategy reset to drive sustainable long-term shareholder value.

We are committed to maintaining a constructive dialogue with our shareholders and look forward to welcoming you to the 2017 AGM.

Sincerely



Simon McKeon AO,
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.

Section 1	Key management personnel	Page 16
Section 2	Remuneration governance	Page 17
Section 3	Company performance	Page 19
Section 4	Remuneration principles and strategy	Page 19
Section 5	Executive remuneration	Page 20
Section 6	Executive employment contracts	Page 23
Section 7	Non-Executive Director remuneration	Page 24
Section 8	Remuneration disclosures	Page 25
Section 9	Other statutory disclosures	Page 26

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	
Garry Hounsell	Chairman	Appointed 22 February 2017
	Non-Executive Director	Since March 2014
Diane Grady AM	Non-Executive Director	Full year
The Hon Nick Sherry	Non-Executive Director	Full year
Julie Coates	Non-Executive Director	Full year
Simon McKeon AO	Non-Executive Director	Appointed 1 December 2016
Margaret Jackson AC	Chairman	Retired 22 February 2017
Rob Koczkar	Non-Executive Director	Retired 30 September 2016
Executive Directors ²	Position	
Martin Sheppard	Chief Executive Officer and Managing Director	Full year
Other KMP ²	Position	
Nigel Chadwick	Chief Financial Officer	Full year
Dana Nelson	Chief Operating Officer	Full year

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. Diane Grady, Nick Sherry and Julie Coates served as Directors for the full financial year before retiring from the Board on that date.

² Effective 22 August 2017, Martin Sheppard retired and Dana Nelson was appointed Chief Executive Officer and Managing Director.

Directors' Report (continued)

2. Remuneration governance

2.1 Response to key issues raised regarding the 2016 Remuneration Report

In response to receiving a first 'strike' against its Remuneration Report at the Company's AGM on 20 October 2016, the People and Remuneration Committee, with the assistance of external remuneration consultants, KPMG, have obtained feedback from investors and proxy advisors, and have conducted a thorough review of the Group's executive remuneration framework.

A summary of key outcomes of the review is provided below.

Table 2: Summary of executive remuneration framework review

Key issues raised	Response
FAR Quantum of Chief Executive Officer ("CEO") FAR too high	The Board has implemented a freeze on FAR for the CEO. The FAR for the CEO was set on his recruitment to the Company in September 2015. At this time the Company had a market capitalisation that positioned it within the S&P/ASX100. In setting FAR, the Board took account of relevant market benchmarks in relation to comparable listed companies and industry peers to ensure that the FAR was set at an appropriate market competitive level. This had regard to market capitalisation as well as a number of other metrics to reflect the size and complexity of operations.
Peer group used for benchmarking purposes	Following the June 2016 quarterly rebalance, Spotless was removed from the S&P/ASX100 Index. The Board has reviewed and updated the benchmarking comparator group to ensure that companies included are relevant to Spotless with respect to current market capitalisation, revenue, scale of operations, employee numbers and complexity. The Board is firmly of the view that any benchmarking exercise should have regard to a number of metrics to reflect the size and scale of operations and not be limited to market capitalisation alone.
STI Lack of disclosure around STI targets	More explicit and transparent disclosure has been provided in this Report in relation to the specific STI performance targets chosen and the reasons why they are considered appropriate.
STI payment outcomes not aligned with performance	The STI outcomes for FY17 resulted in 34.2% of the target STI vesting. This reflects that key NPAT and revenue targets were not achieved. Details of the STI outcomes are outlined in section 5.4.1.
LTI Adjustments to FY16 LTI awards	In FY16, one-off adjustments were made to the CEO's LTI awards and subsequently approved at the 2016 AGM. The adjustments were one-off only and the rationale was provided in the FY16 Remuneration Report. No such adjustments were made in FY17.
Other	The Board believes the following further improvements to the Remuneration framework will further align Spotless' remuneration arrangements with the delivery of the key pillars of the strategy reset and will contribute to the creation of sustainable shareholder wealth. <ul style="list-style-type: none">• Fees paid to Garry Hounsell on appointment as Chair were reduced by 8.5% from the outgoing Chair fees.• Non-executive director fees remain frozen.• Additional work has been undertaken in FY17 to improve the presentation and readability of the remuneration report.

Directors' Report (continued)

2. Remuneration governance (continued)

2.2 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.

As at 30 June 2017, the Committee comprised non-executive directors Diane Grady AM (Chairman), Garry Hounsell, The Hon. Nick Sherry and Julie Coates. Following the Downer takeover, the Committee membership changed and is currently comprised of Garry Hounsell, Simon McKeon AO, John Humphrey, Grant Thorne and Philip Garling.

Further information on the role of the Committee and meetings held throughout the year are set out in the Corporate Governance Statement and page 4 of the Directors' Report.

2.3 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. This assists the Directors to make informed decisions when considering the Group's remuneration policies and practices.

During the 2017 financial year, the Committee engaged KPMG as remuneration consultant to the Board. As part of this engagement, KPMG provided advice in relation to:

- Review of executive remuneration framework in response to the first strike;
- Benchmarking remuneration arrangements of KMP;
- Design of incentive arrangements for FY18; and
- Impact of Downer bid on remuneration arrangements.

KPMG was paid \$120,110 (excluding GST) in relation to remuneration recommendations provided as part of this engagement.

KPMG provided a formal declaration confirming that its recommendations were made free from undue influence by the member or members of the key management personnel to whom the recommendations relate to and, in view of this declaration and the protocols and processes governing the engagement of KPMG and receipt of its recommendations, the Board is satisfied that each of the recommendations were free of undue influence by such persons.

KPMG was paid \$569,817 (excluding GST) for other services provided across the business during the 2017 financial year.

Directors' Report (continued)

3. Company performance

The table below provides a snapshot of the Group's performance over FY17. 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 3: Key performance indicators for FY17 compared to FY16, FY15 and 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 (%)
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

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

The Group's FY17 executive remuneration framework, as summarised below, was designed to support and reward executives on the delivery of Spotless' strategy.

Remuneration structure		
Fixed Annual Remuneration (FAR)	"At-risk" remuneration	
	Short term incentive (STI)	Long term incentive (LTI)
Cash Base salary, superannuation and other non-cash benefits.	Cash and deferred shares Awarded for the achievement of performance criteria measured over a one year performance period. Delivered in the form of cash (70%) and restricted shares deferred for 12 months (30%).	Performance Rights Awarded for the achievement of performance criteria measured over a three year performance period. Delivered in the form of Performance Rights, allocated using face value methodology.
Link to remuneration strategy		
Attract and retain high calibre executives by providing a market competitive remuneration arrangement.	Focus on driving financial and non-financial key performance indicators in the short term.	Focus on achieving long term growth and align to sustained shareholder returns.
Link to performance		
FAR is not performance related. It is set with regard to experience, qualifications, responsibility, complexity, and criticality of the role. FAR is benchmarked against Spotless' peer companies. The benchmarking peer group has been adjusted in FY17 with regard for Spotless' current market capitalisation, assets, revenue, and other key metrics refer to section 5.2. The group primarily comprises Industrials, Consumer Discretionary, Consumer Staples and Health Care Equipment & Services sectors companies.	Performance measures for the FY17 STI were as follows: <ul style="list-style-type: none"> Group Revenue (25%) Group Net Profit After Tax (NPAT) (25%) Growth through Group new business and cross sell targets (Revenue & EBIT) (20%) Recordable injury frequency rate (RIFR) (10%) Group Strategic Plan Measure e.g. business growth, increased earnings (20%) 	Performance measures for the FY17 LTI were as follows: Relative Total Shareholder Return (TSR) (50%): TSR is assessed against the relative performance over a three year period as measured against a comparator group comprising the S&P/ASX 200 (excluding the Financials and Resources sectors). Straight line vesting occurs from 50-100% of award for 50 th to 75 th percentile performance against the comparator group. Earnings Per Share (EPS) (50%): Straight line vesting from 50-100% of award for 6%-12% of compound annual EPS growth (adjusted to take into account one-off items if necessary).
Link to company strategy		
Fixed remuneration provides a market competitive opportunity for driving the day-to-day Spotless business.	The FY17 STI was weighted strongly toward key financial metrics that were viewed by the Board as critical focus areas. A key focus of the strategy reset is to improve profitability through a portfolio restructure, securing work in more profitable, long-dated, multi-service, expandable contracts. The Board selected NPAT to measure progress against this key part of the strategy. To ensure that revenue is not compromised as profitability improves, revenue was selected as a secondary measure. Revenue & EBIT measures were selected as key metrics to assess the strategic priority of growth through Group new business and cross-sell targets. Safety of employees is a key operational issue that underpins all services provided by Spotless. The inclusion in the STI reflects its importance in delivery of contract services.	The TSR metric aligns returns for executives with shareholders over the performance period. EPS is intended to focus the business on sustainable growth over the long-term. Both LTI measures are considered key to Spotless' long-term success.

Directors' Report (continued)

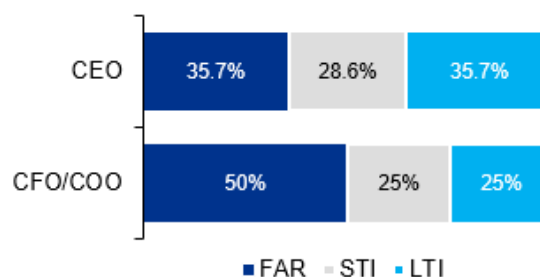
5. Executive remuneration (continued)

5.2 Target Remuneration Mix

Chart 1 below summarises the executive KMP's remuneration mix for FY17, which reflects the Group's remuneration levels (assuming STI achievement at target).

The Board considers that this mix represents an appropriate mix of fixed and variable (or "at-risk") components so as to facilitate the achievement of the Group's Remuneration Principles for executive KMP.

Chart 1: Target executive KMP remuneration mix – FY17



5.3 Fixed Annual Remuneration

There were no increases in FAR for the CEO or CFO from FY16 to FY17. As disclosed in the 2016 Remuneration Report, the COO FAR increased from \$700,000 to \$750,000.

Section 2.1 of this report outlines the review of the benchmarking comparator group that was undertaken in FY17 to ensure that companies included are relevant to Spotless with respect to current market capitalisation, revenue, profit, scale of operations and employee numbers.

Table 4: KMP Fixed Annual Remuneration

KMP	FAR \$
Martin Sheppard CEO	1,300,000
Nigel Chadwick CFO	750,000
Dana Nelson COO	750,000

Directors' Report (continued)






5. Executive remuneration (continued)

5.4 Incentive outcomes

5.4.1 STI outcomes

The STI outcomes for the year ended 30 June 2017 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 5: Performance against STI measures

Measure	Weighting	Outcome	Explanation
Group Revenue	25%		As Spotless achieved a Group Revenue of \$3,006.3m, threshold was not met. This resulted in no vesting against this metric.
Group NPAT	25%		Spotless' Group NPAT was (\$347.4m) in FY17. As such, threshold was not met and no vesting occurred against this metric.
Group new business & cross sell targets (Revenue & EBIT)	20%		Spotless did not achieve Group New Business & Cross Sell targets. This resulted in no vesting against this metric.
Safety (RIFR)	10%		Spotless must achieve a RIFR of less than 6.9 for target to be met. The RIFR in FY17 was 5.5 which resulted in maximum vesting against this metric. This resulted in vesting of 10% of the maximum STI opportunity and 15% of the target STI opportunity (outlined in table 6) against this metric.
Group Strategic Plan	20%		Spotless achieved a score of 64% against the balance scorecard assessing performance against the group strategic plan. As a result, vesting against this metric was below target. This resulted in vesting of 12.8% of the maximum STI opportunity and 19.2% of the target STI opportunity (outlined in table 6 below) against this metric.





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

Table 6: STI vesting outcomes

KMP	Target STI opportunity	STI Vested	% of Target STI Achieved	% of Max STI Achieved
Martin Sheppard CEO	\$1,040,000	\$355,680	34.2%	22.8%
Nigel Chadwick CFO	\$375,000	\$128,250	34.2%	22.8%
Dana Nelson COO	\$375,000	\$128,250	34.2%	22.8%

As a result of the Downer takeover, including the limitations on the ability to issue equity under the terms of the bid, the Board determined that STI deferral would not apply for FY17.

Directors' Report (continued)

5. Executive remuneration (continued)

5.4 Incentive outcomes (continued)

5.4.2 LTI vesting outcomes

Under the LTI Plan Rules, the Downer takeover constituted a "Corporate Control Event", which triggered the automatic pro-rata vesting on 12 April 2017 of unvested LTI awards based on the proportion of the vesting period then remaining.

With regard to the balance of unvested LTI Options and LTI Rights that did not automatically 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. A summary of awards vested to KMP in FY17 is detailed at section 8.

5.5 General incentive plan governance

Table 7: Additional terms of STI and LTI plan

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	In the event an employee ceases employment (including through resignation), other than as a good leaver, unvested rights or deferred shares will lapse. 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.
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 2017 were as follows:

KMP	Notice period
Martin Sheppard	12 months
Nigel Chadwick	6 months
Dana Nelson	6 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

Subsequent to 30 June 2017, Martin Sheppard ceased employment with the Group. 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.

Directors' Report (continued)

6. Executive employment contracts (continued)

6.1 Resignation of the Chief Executive Officer & Managing Director (continued)

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

Following termination of Martin Sheppard's employment agreement, he will be subject to a restraint of trade period of 12 months. The enforceability of the restraint clause is subject to all usual legal requirements.

Dana Nelson was appointed to the role of Chief Executive Officer and Managing Director effective 22 August 2017. Details of her remuneration arrangements are disclosed in the ASX Announcement released on that date. Additional details will be provided in the Group's FY18 Remuneration Report.

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 2017 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 directors' fees.

The following annual directors' fees currently apply. There was no increase in fees from FY16.

Table 8: Annual director's fees

Director's fees	Fees per annum (\$)
Chairman	450,000 ²
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.

7.2 Minimum shareholding requirement for NEDs

Given the circumstances of the Downer take-over, the Board has determined that the minimum shareholding policy for Non-Executive Directors introduced in FY16 will not continue to apply.

² The fee paid to the former Chairman, Margaret Jackson, were set at an annual fee of \$492,500. The incoming Chair fee has been set at 8.5% below the fee paid to his predecessor.

Directors' Report (continued)

8. Remuneration disclosures

8.1 Remuneration of KMP

Table 9a: Executive KMP statutory remuneration – Accounting

Accounting		Short Term Benefits \$				Long Term Benefits \$	Post Employment \$		Share Based Payments \$		Total \$	% of Rem
	Financial Year	Salary	Bonus ^{8,9}	Other	Annual Leave	Long Service Leave	Superannuation	Termination Payments	Share Options ⁷	Shares		Performance Based
Executive Directors												
M Sheppard ¹	2017	1,265,601	355,680	-	65,036	6,342	19,616	-	3,045,526	-	4,757,801	71%
	2016	772,481	456,877	-	22,189	2,577	14,481	-	218,870	-	1,487,475	45%
B Dixon ²	2017	-	-	-	-	-	-	-	-	-	-	0%
	2016	540,346	-	-	-	-	9,654	146,487	-	-	696,487	0%
Other KMP												
D Nelson ³	2017	716,551	203,250	125,000	16,837	32,308	19,616	-	620,900	-	1,734,462	48%
	2016	612,289	155,741	125,000	8,611	35,660	19,308	-	38,210	-	994,819	19%
N Chadwick ⁴	2017	730,384	203,250	-	17,306	3,525	19,616	-	527,667	-	1,501,748	49%
	2016	327,904	163,741	-	27,998	1,088	9,654	-	25,515	-	555,900	0%
V Pepe ⁵	2017	-	-	-	-	-	-	-	-	-	-	0%
	2016	71,434	-	-	-	-	4,827	28,743	-	-	105,004	0%
D Agnoletto ⁶	2017	-	-	-	-	-	-	-	-	-	-	0%
	2016	338,737	-	-	-	-	14,481	503,768	30,406	-	887,392	3%
Total	2017	2,712,536	762,180	125,000	99,179	42,175	58,848	-	4,194,093	-	7,994,011	62%
	2016	2,663,191	776,359	125,000	58,798	39,325	72,405	678,998	313,001	-	4,727,078	23%

1 M Sheppard commenced as a KMP on 23 November 2015.

2 B Dixon ceased to be a KMP on 20 November 2015

3 D Nelson commenced as a KMP on 17 August 2015.

4 N Chadwick commenced as a KMP on 18 January 2016

5 V Pepe ceased to be a KMP on 17 August 2015

6 D Agnoletto ceased to be a KMP on 31 January 2016

7 Value of share options represents an accounting value for options issued and does not reflect actual remuneration received by Key Management Personnel. Included in M Sheppard's 2017 value is \$1,435,019 relating to share options which were not issued, but met the recognition criteria for accounting purposes.

8 In the 2016 Remuneration Report, Table 10 stated that M Sheppard received a bonus of \$609,169. The actual net amount paid to Mr Sheppard subsequent to the completion of the 2016 Remuneration Report was \$456,877. The comparative amount in the table above has been amended to reflect this.

9 2017 Bonus for N Chadwick and D Nelson includes a \$75,000 discretionary component respectively

Table 9b: 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.

Non-Statutory		Short Term Benefits \$				Long Term Benefits \$	Post Employment \$		Share Based Payments \$		Total \$	% of Rem
	Financial Year	Salary	Bonus ⁸	Other	Annual Leave	Long Service Leave	Superannuation	Termination Payments	Share Options ⁷	Shares ⁹		Performance Based
Executive Directors												
M Sheppard ¹	2017	1,265,601	319,814	-	65,036	-	19,616	-	1,845,279	137,063	3,652,409	63%
	2016	772,481	-	-	22,189	-	14,481	-	-	-	809,151	0%
B Dixon ²	2017	-	-	-	-	-	-	-	-	-	-	0%
	2016	540,346	-	-	-	-	9,654	146,487	-	-	696,487	0%
Other KMP												
D Nelson ³	2017	716,551	109,037	125,000	16,837	-	19,616	-	401,163	46,730	1,434,934	39%
	2016	612,289	176,400	125,000	8,611	-	19,308	-	-	-	941,608	19%
N Chadwick ⁴	2017	730,384	114,619	-	17,306	-	19,616	-	515,981	49,122	1,447,028	47%
	2016	327,904	-	-	27,998	-	9,654	-	-	-	365,556	0%
V Pepe ⁵	2017	-	-	-	-	-	-	-	-	-	-	0%
	2016	71,434	-	-	-	-	4,827	28,743	-	-	105,004	0%
D Agnoletto ⁶	2017	-	-	-	-	-	-	-	-	-	-	0%
	2016	338,737	-	-	-	-	14,481	503,768	-	-	856,986	0%
Total	2017	2,712,536	543,470	125,000	99,179	-	58,848	-	2,762,423	232,915	6,534,371	54%
	2016	2,663,191	176,400	125,000	58,798	-	72,405	678,998	-	-	3,774,792	5%

1 M Sheppard commenced as a KMP on 23 November 2015.

2 B Dixon ceased to be a KMP on 20 November 2015

3 D Nelson commenced as a KMP on 17 August 2015.

4 N Chadwick commenced as a KMP on 18 January 2016.

5 V Pepe ceased to be a KMP on 17 August 2015.

6 D Agnoletto ceased to be a KMP on 31 January 2016.

7 Nominal amounts have been calculated based on the total number of options and performance rights that have vested, multiplied by the excess of \$1.15 over the exercise price.

8 2017 amounts reflect the cash settlement (70%) of 2016 STI outcomes. These amounts were paid during financial year 2017.

9 Amounts reflect the restricted share component (30%) of 2016 STI outcomes.

Directors' Report (continued)

8. Remuneration disclosures (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											
G Hounsell ¹	2017	272,747	-	-	-	18,657	-	-	-	291,404	0%
	2016	186,301	-	-	-	17,699	-	-	-	204,000	0%
M Jackson ²	2017	314,923	-	-	-	14,711	-	-	-	329,634	0%
	2016	472,692	-	-	-	19,308	-	-	-	492,000	0%
D Grady	2017	186,301	-	-	-	17,699	-	-	-	204,000	0%
	2016	186,301	-	-	-	17,699	-	-	-	204,000	0%
N Sherry	2017	168,036	-	-	-	15,963	-	-	-	183,999	0%
	2016	168,036	-	-	-	15,963	-	-	-	183,999	0%
J Coates ³	2017	152,253	-	-	-	14,464	-	-	-	166,717	0%
	2016	74,886	-	-	-	7,114	-	-	-	82,000	0%
S McKeon ⁴	2017	90,601	-	-	-	8,607				99,208	0%
	2016	-	-	-	-	-	-	-	-	-	0%
R Koczkar ⁵	2017	39,726	-	-	-	7,547	-	-	-	47,273	0%
	2016	158,904	-	-	-	15,096				174,000	0%
G Hutchinson ⁶	2017	-	-	-	-	-	-	-	-	-	0%
	2016	79,452	-	-	-	7,548				87,000	0%
Total	2017	1,224,587	-	-	-	97,648	-	-	-	1,322,235	0%
	2016	1,326,572	-	-	-	100,427	-	-	-	1,426,999	0%

1 G Hounsell was appointed Chairman on 22 February 2017

4 S McKeon commenced as a KMP on 1 December 2016

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

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

3 J Coates commenced as a KMP on 1 January 2016

6 G Hutchinson ceased to be a KMP on 31 December 2015

9. Other statutory disclosures

9.1 Equity awards: awarded, vested and forfeited during the year

Table 11a: Options and rights awarded, vested and forfeited

Options and rights awarded during the year No.													Options / rights vested during the year No.	Options / rights forfeited during the year No.
Year		Award date	Performance Hurdle	Fair value per option / right at grant date \$	Vesting Date ⁵	Exercise price \$	Expiry date							
Executive Directors														
M Sheppard ¹	2017	1,644,071	24/11/2016	EPS	0.277	30/06/2018	1.03	30/06/2019	1,644,071	-	-	-		
	2017	1,644,071	24/11/2016	TSR	0.269	30/06/2018	1.03	30/06/2019	1,644,071	-	-	-		
	2017	629,235	24/11/2016	EPS	0.900	30/06/2019	-	30/06/2020	629,235	-	-	-		
	2017	629,235	24/11/2016	TSR	0.610	30/06/2019	-	30/06/2020	629,235	-	-	-		
	2016	-	-	-	-	-	-	-	-	-	-	-		
Other KMP														
D Nelson ²	2017	174,419	24/11/2016	EPS	0.744	30/06/2019	-	30/06/2020	174,419	-	-	-		
	2017	174,419	24/11/2016	TSR	0.496	30/06/2019	-	30/06/2020	174,419	-	-	-		
	2017	-	-	-	-	-	-	-	1,484,089	-	-	-		
	2016	605,956	28/09/2015	EPS	0.251	30/06/2019	2.07	30/06/2019	-	-	-	-		
	2016	605,956	28/09/2015	TSR	0.238	30/06/2019	2.07	30/06/2019	-	-	-	100,639		
N Chadwick ³	2017	174,419	24/11/2016	EPS	0.744	30/06/2019	-	30/06/2020	174,419	-	-	-		
	2017	174,419	24/11/2016	TSR	0.496	30/06/2019	-	30/06/2020	174,419	-	-	-		
	2017	-	-	-	-	-	-	-	948,502	-	-	-		
	2016	474,251	13/04/2016	EPS	0.277	30/06/2018	1.03	30/06/2019	-	-	-	-		
	2016	474,251	13/04/2016	TSR	0.269	30/06/2018	1.03	30/06/2019	-	-	-	-		
D Agnoletto ⁴	2017	-	-	-	-	-	-	-	-	-	-	-		
	2016	-	-	-	-	-	-	-	-	-	-	-		
	2016	519,391	28/09/2015	EPS	0.251	30/06/2018	2.07	30/06/2019	-	-	-	1,401,541		
	2016	519,391	28/09/2015	TSR	0.238	30/06/2018	2.07	30/06/2019	-	-	-	-		
	2015	-	-	-	-	-	-	-	-	-	-	-		
	2014	109,824	23/05/2014	EPS	0.192	30/06/2016	1.60	30/06/2017	-	-	-	-		
	2014	109,824	23/05/2014	TSR	0.185	30/06/2016	1.60	30/06/2017	-	-	-	-		
	2014	297,019	23/05/2014	EPS	0.213	30/06/2017	1.60	30/06/2018	-	-	-	-		
	2014	297,019	23/05/2014	TSR	0.209	30/06/2017	1.60	30/06/2018	-	-	-	-		
Total	2017	5,244,288	-	-	-	-	-	-	7,502,460	-	-	-		
	2016	3,199,196	-	-	-	-	-	-	-	-	-	1,502,180		

1 M Sheppard commenced as a KMP on 23 November 2015.

2 D Nelson commenced as a KMP on 17 August 2015. The 100,639 shares forfeited in 2016, and 272,177 of options vested in 2017, relate to options granted to Ms Nelson prior to commencement as a KMP.

3 N Chadwick commenced as a KMP on 18 January 2016

4 D Agnoletto ceased to be a KMP on 31 January 2016

5 Represents vesting date of original awards. The Downer takeover triggered automatic vesting of unvested awards during 2017.

Directors' Report (continued)

9. Other statutory disclosures (continued)

Table 11b: Modifications to options and rights awarded

The Downer takeover triggered automatic vesting of unvested awards during 2017. The details of this modification are set out below. All other terms and conditions of the awards remained unchanged.

Options and Rights subject to modification	Modification date	Performance Hurdle	Fair value per option/ right at grant date \$	Fair value per option/ right revalued at modification date \$	Fair value per option/ right at modification date \$	Exercise price \$	Vesting Date per Original Award	Vesting Date per modification
Executive Directors								
M Sheppard ¹	831,049	21/04/2017	EPS	0.277	0.269	0.276	1.03	30/06/2018
	831,049	21/04/2017	TSR	0.269	0.258	0.276	1.03	30/06/2018
	813,022	19/06/2017	EPS	0.277	0.270	0.278	1.03	30/06/2018
	813,022	19/06/2017	TSR	0.269	0.253	0.278	1.03	30/06/2018
	160,326	21/04/2017	EPS	0.900	1.026	1.110	-	30/06/2019
	160,326	21/04/2017	TSR	0.610	0.655	1.110	-	30/06/2019
	468,909	19/06/2017	EPS	0.900	1.071	1.150	-	30/06/2019
	468,909	19/06/2017	TSR	0.610	0.687	1.150	-	30/06/2019
Other KMP								
D Nelson ²	44,441	21/04/2017	EPS	0.744	0.990	1.110	-	30/06/2019
	35,839	21/04/2017	TSR	0.496	0.690	1.110	-	30/06/2019
	129,978	19/06/2017	EPS	0.744	1.030	1.150	-	30/06/2019
	138,579	19/06/2017	TSR	0.496	0.720	1.150	-	30/06/2019
N Chadwick ³	44,441	21/04/2017	EPS	0.744	0.990	1.110	-	30/06/2019
	35,839	21/04/2017	TSR	0.496	0.690	1.110	-	30/06/2019
	129,978	19/06/2017	EPS	0.744	1.030	1.150	-	30/06/2019
	138,579	19/06/2017	TSR	0.496	0.720	1.150	-	30/06/2019
	239,726	21/04/2017	EPS	0.277	0.269	0.276	1.03	30/06/2018
	239,726	21/04/2017	TSR	0.269	0.258	0.276	1.03	30/06/2018
	234,525	19/06/2017	EPS	0.277	0.270	0.278	1.03	30/06/2018
	234,525	19/06/2017	TSR	0.269	0.253	0.278	1.03	30/06/2018

1 M Sheppard commenced as a KMP on 23 November 2015.

2 D Nelson commenced as a KMP on 17 August 2015.

3 N Chadwick commenced as a KMP on 18 January 2016

9.2 Equity awards held by KMP

Table 12: KMP option and rights holdings

	Options and rights at beginning of the year	Granted as remuneration	Options and rights vested / sold ¹	Options and rights forfeited	Options and rights held at the end of the year
Executive Directors					
M Sheppard	-	4,546,612	4,546,612	-	4,546,612
Other KMP					
D Nelson	1,484,089	348,838	1,832,927	-	1,832,927
N Chadwick	948,502	348,838	1,297,340	-	1,297,340
Total	2,432,591	5,244,288	7,676,879	-	7,676,879

1 The Downer takeover triggered automatic vesting of unvested awards during 2017.

Directors' Report (continued)

9. Other statutory disclosures (continued)

9.3 Shareholdings of KMP

Table 13: KMP shareholdings

	Shares at beginning of the year	Granted as remuneration	On exercise of options	Net other changes	Shares held at the end of the year
Non-Executive Directors					
G Hounsell	358,750	-	-	41,250	400,000
M Jackson ¹	2,325,000	-	-	-	N/A
D Grady	170,281	-	-	-	170,281
N Sherry	87,500	-	-	37,125	124,625
J Coates ²	50,000	-	-	50,000	100,000
S McKeon ³	-	-	-	500,000	500,000
R Koczkar ⁴	412,500	-	-	-	N/A
Executive Directors					
M Sheppard	290,439	127,500	-	-	417,939
Other KMP					
D Nelson	590,907	43,470	-	-	634,377
N Chadwick	100,000	45,695	-	-	145,695
Total	4,385,377	216,665	-	628,375	2,492,917

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

2 J Coates commenced as a KMP on 1 January 2016

3 S McKeon commenced as a KMP on 1 December 2016

4 R Koczkar ceased as a KMP on 30 September 2016

9.4 Other transactions and balances with KMP and their related parties

There were no other transactions with KMP or their related parties during the year.

Directors' Report (continued)

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

A handwritten signature in black ink, appearing to read 'G Hounsell'.

G Hounsell
Chairman
Melbourne, 24 August 2017

A handwritten signature in blue ink, appearing to read 'D Nelson'.

D Nelson
Chief Executive Officer & Managing Director
Melbourne, 24 August 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

		2017	2016
		\$m	\$m
Continuing Operations	Note		
Revenue	5	3,006.3	3,176.1
		3,006.3	3,176.1
Direct employee expenses		(1,125.7)	(1,147.6)
Subcontractor expenses		(921.6)	(961.5)
Cost of goods used		(480.6)	(511.9)
Occupancy costs		(29.7)	(22.7)
Catering rights		(53.6)	(53.5)
Other expenses	7	(594.3)	(167.3)
(Loss) / Profit before depreciation, amortisation, finance costs and income tax (EBITDA)		(199.2)	311.6
Depreciation and amortisation expense	6(a)	(111.7)	(103.8)
(Loss) / Profit before finance costs and income tax (EBIT)		(310.9)	207.8
Finance income	5	0.5	0.5
Finance expense	6(b)	(44.0)	(40.4)
(Loss) / Profit before income tax		(354.4)	167.9
Income tax benefit / (expense)	9(a)	7.0	(45.7)
(Loss) / Profit for the year after tax		(347.4)	122.2
Other Comprehensive Income			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Foreign currency translation differences for foreign operations		0.1	(6.9)
Effective portion of changes in fair value of cash flow hedges		5.9	0.1
Income tax on effective portion of changes in fair value of cash flow hedges		(1.8)	-
Other comprehensive income / (loss) for the year, net of income tax		4.2	(6.8)
Total comprehensive (loss) / income for the year		(343.2)	115.4
Total comprehensive (loss) / income attributable to equity holders of the parent entity		(343.2)	115.4
(Loss) / Profit attributable to equity holders of the parent entity		(347.4)	122.2
		2017	2016
		cents	cents
Earnings per share			
Basic (losses) / earnings per share	8	(31.6)	11.1
Diluted (losses) / earnings per share	8	(31.6)	11.0

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

Consolidated Statement of Financial Position as at 30 June 2017

		2017	2016
	Note	\$m	\$m
Current assets			
Cash and cash equivalents	13(a)	66.0	54.3
Trade and other receivables	10(a)	412.7	429.6
Inventories		32.0	30.0
Prepayments		11.3	15.6
Current tax assets		-	3.4
Total current assets		522.0	532.9
Non-current assets			
Investments accounted for using the equity method		1.8	2.0
Trade and other receivables	10(b)	73.4	39.4
Property, plant and equipment	16	281.2	302.9
Goodwill	22	753.4	1,032.0
Intangible assets	17	132.9	163.1
Deferred tax assets	9(c)	112.8	111.0
Other	18	34.5	57.6
Total non-current assets		1,390.0	1,708.0
Total assets		1,912.0	2,240.9
Current liabilities			
Trade and other payables	11	381.9	294.4
Borrowings	14(a)	835.5	3.8
Current tax liabilities		7.2	-
Provisions	12	119.6	117.4
Derivatives at fair value	14(a)	2.3	5.8
Total current liabilities		1,346.5	421.4
Non-current liabilities			
Borrowings	14(a)	12.8	840.3
Deferred tax liabilities	9(d)	75.7	99.0
Provisions	12	44.5	43.1
Derivatives at fair value	14(a)	-	2.2
Other		11.7	7.6
Total non-current liabilities		144.7	992.2
Total liabilities		1,491.2	1,413.6
Net assets		420.8	827.3
Equity			
Issued capital	15	993.8	993.8
Reserves		3.3	(7.3)
Accumulated losses		(576.3)	(159.2)
Total equity	14(a)	420.8	827.3

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

Consolidated Statement of Changes in Equity for the year ended 30 June 2017

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 2015	993.8	(1.0)	(5.8)	(0.6)	6.6	(182.6)	810.4
Profit for the year	-	-	-	-	-	122.2	122.2
<i>Other comprehensive income</i>							
Currency translation differences	-	(6.9)	-	-	-	-	(6.9)
Movement in cash flow hedges	-	-	0.1	-	-	-	0.1
Tax effect of movements	-	-	-	-	-	-	-
Total other comprehensive income/(loss)	-	(6.9)	0.1	-	-	-	(6.8)
Total comprehensive income/(loss)	-	(6.9)	0.1	-	-	122.2	115.4
Dividends paid	-	-	-	-	-	(98.8)	(98.8)
Recognition of share based payments	-	-	-	-	0.3	-	0.3
At 30 June 2016	993.8	(7.9)	(5.7)	(0.6)	6.9	(159.2)	827.3
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 (i)	993.8	(7.8)	(1.6)	(0.6)	13.3	(576.3)	420.8

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 2017 was 1,098,403,963 (2016: 1,098,290,178). During the year, 113,785 ordinary shares were issued as a result of the exercise of rights under the Spotless Executive Incentive Plan (2016: no options or rights exercised).

Consolidated Cash Flow Statement

for the year ended 30 June 2017

	Note	Inflows/(Outflows)	
		2017 \$m	2016 \$m
Cash flows from operating activities			
Receipts from customers		2,677.9	3,563.1
Payments to suppliers and employees		(2,442.7)	(3,375.5)
Interest received		0.5	0.5
Interest and other costs of finance paid		(37.4)	(38.7)
Income tax paid		(7.7)	(7.7)
Net cash provided by operating activities	13(b)	190.6	141.7
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		11.6	11.4
Payment for property, plant, equipment and capitalised contract costs		(92.2)	(140.6)
Payment for acquisition of businesses	21	(23.9)	(102.9)
Proceeds from the sale of assets		10.4	-
Proceeds from the sale of shares held in joint ventures		-	2.1
Payment for intangible assets		(1.1)	(15.6)
Proceeds from repayment of other financial assets		-	0.5
Net cash used in investing activities		(95.2)	(245.1)
Cash flows from financing activities			
Proceeds from borrowings		160.0	340.0
Repayment of borrowings		(166.4)	(185.0)
Payment of finance lease liabilities		(8.0)	(3.3)
Dividends paid to members of the parent entity		(69.7)	(98.8)
Net cash (used in) / provided by financing activities		(84.1)	52.9
Net increase / (decrease) in cash and cash equivalents		11.3	(50.5)
Cash and cash equivalents at the beginning of the year		54.3	105.2
Effects of exchange rate changes on the balance of cash held in foreign currencies		0.4	(0.4)
Cash and cash equivalents at the end of the year	13(a)	66.0	54.3

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 2017

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:

Note Contents

About This Report

- 1. Reporting Entity
- 2. Basis of Preparation
- 3. Summary of Significant Accounting Policies

Group Performance

- 4. Operating Segments
- 5. Revenue
- 6. Expenses
- 7. Contract Rationalisation and Restructuring Costs
- 8. Earnings / (Loss) per Share (EPS)
- 9. Income Tax

Working Capital

- 10. Trade and Other Receivables
- 11. Current Trade and Other Payables
- 12. Provisions

Capital Structure and Financial Risk Management

- 13. Cash and Cash Equivalents
- 14. Financial Instruments
- 15. Equity

Note Contents

Capital Employed

- 16. Property, Plant and Equipment
- 17. Intangible Assets
- 18. Other Non-Current Assets
- 19. Leases

Group Structure and Related Parties

- 20. Controlled Entities
- 21. Business Combinations
- 22. Goodwill
- 23. Parent Entity Disclosures
- 24. Related Party Disclosures
- 25. Share-based Payment

Other Information

- 26. Commitments and Contingent Liabilities
- 27. Remuneration of Auditors
- 28. Events After the Reporting Period

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

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 24 August 2017.

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.

Going Concern

As at 30 June 2017, the consolidated statement of financial position of the Group reflects a net current asset deficiency of \$824.5m. This is attributable to the reclassification of the Group's external debt facilities to current liabilities following Downer Group ("Downer") acquiring ownership of more than 50% of the issued share capital of Spotless on 27 June 2017. Under the Group's Syndicated Facility Agreements and Bilateral Facility Agreements ("the Facility Agreements"), a change of control gives rise to an unconditional right for the Facility Agreement lenders ("the Lenders") to trigger a review event ("Review Event") which may result in the early repayment of the outstanding drawn debt and committed facilities, despite not yet being at maturity. As at 30 June 2017, a waiver of this Review Event right had not been obtained from the Lenders.

The following matters have been considered by the Directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- Subsequent to year-end, but before the signing of the financial statements, the Group sought and was granted, a waiver from the Lenders to extend the Change of Control trigger to 90% of the issued share capital of Spotless;
- The Group's existing Facility Agreements (other than the \$50 million single currency revolving cash advance facility) have contractual maturities beyond twelve months;
- All financial covenants under existing debt facilities have been met;
- The Group has forecast positive free cash flows in FY18 and beyond, which is sufficient to service existing obligations in the ordinary course of business, including repayment of the \$50 million single currency revolving cash advance facility which matures on 11 July 2018; and
- In the event the 90% ownership threshold is achieved by Downer, which may occur anytime in the next twelve months, the Change of Control clause will be triggered in the Facility Agreements, which will give rise to an unconditional right for the Lenders to trigger a Review Event.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

2. Basis of Preparation (continued)

Going Concern (continued)

At 90% ownership of the issued share capital of Spotless, Downer is entitled to compulsorily acquire the remaining issued share capital. Accordingly, Spotless will rely on the ability of Downer to successfully renegotiate and/or refinance the Facility Agreements. Should the Lenders initiate a Review Event and Spotless and/or its ultimate parent entity and the Lenders fail to agree appropriate amendments within 30 days of the Review Event notice (unless mutually extended), then the relevant Lenders may request early repayment of all amounts owing under the Facility Agreements (including cancellation of all outstanding commitments) 90 days after issuing the Review Event notice.

Whilst no formal refinancing arrangement is currently in place, in the event Spotless and/or its ultimate parent entity are unable to refinance or refinance within the time limits specified under the Facility Agreements, alternative funding sources would be considered, including the ability of the Group to draw upon funding from shareholders through intercompany borrowings or via a capital raising.

Notwithstanding these uncertainties, the financial statements have been prepared on a going concern basis and no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

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
Onerous contracts provisions	12	Provisions
Long service leave provisions	12	Provisions
Estimation of useful lives and residual values of property, plant and equipment	16	Property, Plant and Equipment
Useful lives of acquired customer contracts	17	Intangible Assets
Impairment of intangible assets (including software development costs)	17	Intangible Assets
Impairment of goodwill	22	Goodwill

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the year ended 30 June 2017

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

Both the functional and 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 2017

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 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 2016 and 1 July 2016:

- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (AASB 1 & AASB 11)
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

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 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112)'	1 January 2017
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017
2017-1 Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments [AASB 1, AASB 128 & AASB 140]	1 January 2018
IFRIC 23 'Uncertainty over Income Tax Treatments'	1 January 2019

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

3. Summary of Significant Accounting Policies (continued)

(e) New Accounting Standards and Interpretations (continued)

The potential effects of the initial application of the following Standards are currently being assessed and not yet quantified by the Group:

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

It is not anticipated that the Group will early adopt the new AASB 15 standard. AASB 15 primarily replaces AASB 118 *Revenue* and AASB 111 *Construction Contracts*, and the existing principles around revenue recognition and measurement. The new standard requires revenue to be recognised when (or as) an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. The current standards require revenue to be recognised when the entity has transferred the risks and rewards of ownership to the customer (goods) or by reference to the stage of completion of the transaction (services) at the fair value of the consideration received or receivable. AASB 15 also provides principles on when to capitalise the costs of obtaining or fulfilling a contract that are not addressed in other accounting standards, as well as additional disclosure requirements.

The Group's dedicated project team is currently in the process of determining the potential impact to the Group of adopting AASB 15, primarily by:

- Completing detailed reviews of selected material contracts to understand the impact, if any, at the date of transition and beyond;
- Assessing the disclosure requirements; and
- Assessing the revenue and reporting systems used by the Group to understand what systems changes are required to recognise revenue and fulfil disclosure requirements.

No material differences have been identified to date.

Whilst the Group has not yet made a final decision, it presently intends to elect modified retrospective application under the transition rules, therefore recognising the cumulative effect of initially applying the new standard at the date of initial application, 1 July 2018.

The Group have commenced assessing the potential impact of the initial application of both AASB 9 'Financial Instruments' and AASB 16 'Leases'.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

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, and 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 expense.

\$m	Facility Services	Laundries	Corporate / eliminations	Group
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)
Profit / (Loss) before income tax	(103.4)	(117.1)	(133.9)	(354.4)
Income tax (expense) / benefit	-	-	7.0	7.0
Profit / (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
2016				
Sales Revenue	2,909.7	295.3	(28.9)	3,176.1
EBITDA	279.0	71.4	(38.8)	311.6
Depreciation	(34.1)	(48.4)	(5.1)	(87.6)
Amortisation	-	-	(16.2)	(16.2)
EBIT	244.9	23.0	(60.1)	207.8
Net finance costs	-	-	(39.9)	(39.9)
Profit / (Loss) before income tax	244.9	23.0	(100.0)	167.9
Income tax (expense) / benefit	-	-	(45.7)	(45.7)
Profit / (Loss) for the year	244.9	23.0	(145.7)	122.2
Segment assets	1,510.5	420.4	309.9	2,240.8
Segment liabilities	363.1	60.5	990.2	1,413.8

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

4. Operating Segments (continued)

Geographic information

	2017	2016
	\$m	\$m
Australia	2,601.3	2,794.7
New Zealand	405.0	381.4
Total revenue	3,006.3	3,176.1

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

Non-current assets

Australia	1,086.4	1,411.5
New Zealand	81.1	86.5
Total non-current assets	1,167.5	1,498.0

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

5. Revenue

Sales revenue:

	2017	2016
	\$m	\$m
Rendering of services	2,673.5	2,804.7
Sale of goods	332.8	371.4
Revenue from operating activities	3,006.3	3,176.1

Interest Revenue

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 2017

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 revenue

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

Dividend revenue

Dividend revenue 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 2017

6. Expenses

(a) Depreciation and amortisation

	2017 \$m	2016 \$m
Property, plant and equipment (i)	39.1	37.1
Laundries rental stock (i)	40.1	38.4
Capitalised contract costs	16.3	12.1
Upfront catering rights	-	0.3
Amortisation of identifiable intangible assets (ii)	16.2	15.9
Total depreciation and amortisation (vi)	111.7	103.8

(b) Finance expenses

Interest charged from third party entities	38.0	36.4
Other borrowing costs	1.6	1.8
Unwinding of discount on provisions (iii) (vi)	4.4	2.2
Total finance expenses	44.0	40.4

(c) Other items included in the profit and loss

Contract rationalisation and restructuring costs (vi)	434.5	-
Contract rationalisation and restructuring costs - Operating lease expense (vi)	7.0	-
Takeover and other transaction costs (vii)	17.3	-
Takeover and other transaction costs - Share based payment expense (vii)	5.5	-
Net acquisition related settlement	(3.3)	-
Re-measurement of provisions	(9.6)	(4.2)
Operating lease expense (iv)	42.7	45.8
Employee expenses - superannuation defined contribution plans	79.6	84.7
Share based payment expense (v)	0.9	0.3
Loss on disposal of MV Epicure	2.5	-
Exit costs of major Resources contract	2.1	-
Write-off of costs on two significant unsuccessful bids	-	9.0

(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

(vii) Takeover and other transaction costs largely relate to advisor fees associated with the Downer takeover bid, in addition to costs related to other acquisitions and disposal transactions, together with other associated legal fees. These costs also include share-based payment expense incurred as a result of the accelerated vesting of employee Long-Term Incentive Plans, due to the takeover.

(d) Accounting Policies

Capitalised contract costs

Capitalised contract costs (including mobilisation costs) are costs necessarily incurred in relation to securing new and existing contracts. They are capitalised to Other non-current assets on the Statement of Financial Position only to the extent that it is probable the contract will be secured (or the costs recovered). They are amortised to the Statement of Profit or Loss and Other Comprehensive Income over the contract period within depreciation expense. Costs are immediately expensed in full to the Statement of Profit or Loss and Other Comprehensive Income upon notification that the Group has been unsuccessful in securing the contract.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

6. Expenses (continued)

(d) Accounting Policies (continued)

Mobilisation costs

Mobilisation 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.

7. Contract Rationalisation and Restructuring Costs

Within results from continuing operations in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017, are certain items that largely relate to the accounting impacts of the Group's decision to review its current contract portfolio in line with its strategy outlined in 1H17. As a result, the Group is exiting a number of contracts within its portfolio as well as allowing the business to focus on investing in high-growth sectors, and improving performance and profitability.

This optimisation will result in the accelerated exit of low-performing contracts to allow the business to focus on priority growth areas as soon as possible. The Group has identified various facilities services and laundry contracts as non-core.

2017 \$m	Other operating expenses	Direct employee expenses	Depreciation and amortisation expense	Interest Expense	Tax impact	Total
Goodwill impairment (i)	315.7	-	-	-	-	315.7
Other intangible asset write-downs (ii)	15.1	-	-	-	(1.1)	14.0
Property, plant and equipment write-downs and loss on disposals (iii)	38.5	-	5.2	-	(13.1)	30.6
Other asset write-downs	32.1	-	2.3	-	(10.2)	24.2
Onerous contract provisions (iv)	20.0	-	1.4	1.2	(6.8)	15.8
Other provisions and accruals	16.7	-	-	-	(4.9)	11.8
Restructuring costs	1.9	1.5	-	-	(1.0)	2.4
Total contract rationalisation and restructuring costs	440.0	1.5	8.9	1.2	(37.1)	414.5

(i) Other expenses relating to goodwill are detailed in Note 22(c) to these financial statements.

(ii) Other intangible asset write-downs (pre-tax) have impacted software development by \$15.1 million in the Facility Services segment. Refer Note 17.

(iii) Property, plant and equipment write-downs and loss on disposals (pre-tax) impact plant and equipment by \$21.4 million in the Facility Services segment. The Laundries segment incurred write-downs, loss on disposals, and depreciation acceleration (pre-tax) of \$9.6 million for rental stock and \$12.7 million for plant and equipment respectively, including costs associated with the closure of the Belmont Laundry and one New Zealand Laundry.

(iv) Amounts have been included in Note 12.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

8. Earnings / (Loss) per Share (EPS)

Basic 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:

	2017 \$m	2016 \$m
Net (loss) / profit attributable to the Group's ordinary equity holders used in calculating basic and diluted (losses) / earnings per share	(347.4)	122.2

	2017 '000	2016 '000
<i>Weighted average number of shares (number):</i>		
Weighted average number of ordinary shares for basic (losses) / earnings per share	1,098,404	1,098,290
Weighted average number of ordinary shares for diluted (losses) / earnings per share	1,100,535	1,107,972

9. Income Tax

(a) Income tax recognised in profit or loss

	2017 \$m	2016 \$m
Current tax benefit / (expense) in respect of the current year	(18.7)	(22.1)
Adjustments recognised in the current year in relation to the current tax of prior years	0.1	2.2
Deferred tax expense relating to the origination and reversal of temporary differences	25.6	(25.8)
Income tax benefit / (expense)	7.0	(45.7)

(b) Reconciliation of prima-facie tax on profit to income tax benefit / (expense)

(Loss) / Profit before income tax	(354.4)	167.9
Income tax benefit / (expense) calculated at 30%	106.3	(50.4)
<i>Items that (increase) / decrease tax benefit / (expense)</i>		
Impairment of goodwill	(94.7)	-
Non-deductible entertainment expense	(0.1)	(0.1)
Non-deductible professional fees	(0.9)	(0.6)
Share based payment	(1.9)	-
Other (i)	(1.7)	5.4
	(99.3)	4.7
At the effective income tax rate of 2.0% (2016: 27.2%)	7.0	(45.7)
Income tax expense reported in other comprehensive income	(1.8)	-
Total income tax benefit / (expense)	5.2	(45.7)

(i) Included in 2017 is re-measurement of deferred tax liability of \$4.3 million (2016: \$3.3 million).

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

9. Income Tax (continued)

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%.

	2017	2016
	\$m	\$m
(c) Deferred tax assets		
<i>Arising from temporary differences</i>		
Employee compensation and benefits accrued	38.5	32.3
Other provisions	17.1	20.5
Transaction related costs	7.7	11.1
Property, plant and equipment	18.7	6.8
Other	5.7	4.8
	87.7	75.5
<i>Arising from tax losses or offsets</i>		
Revenue losses	25.1	35.5
Deferred tax assets	112.8	111.0

The Australian tax consolidated group has recognised a \$25.1 million (2016: \$35.5 million) deferred tax asset at 30 June 2017 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

Catering rights and prepayments	-	(3.7)
Property, plant and equipment	(5.8)	(1.1)
Amortising intangible assets	(38.3)	(48.9)
Capitalised contract costs	(9.7)	(21.8)
Other	(21.9)	(23.5)
Deferred tax liabilities	(75.7)	(99.0)

(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	1.8	-
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SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

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.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax for the year is recognised as an expense or income in the Statement of Profit or Loss, except when it relates to items credited or debited directly to equity, in which case the 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 formed a tax consolidated group with effect from 3 April 2012. Pacific Industrial Services FinCo Pty Limited and Pacific Industrial Services BidCo Pty Limited are subsidiary members of the tax consolidated group. These are wholly-owned Australian resident entities. Effective 16 August 2012 the 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 2017

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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

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. Trade and Other Receivables

(a) Current Trade and Other Receivables

	2017	2016
	\$m	\$m
Trade receivables	411.5	428.3
Allowance for doubtful debts (i)	(2.5)	(3.6)
Other debtors	3.7	4.9
	412.7	429.6

(i) At 30 June 2017 there are no material individually impaired trade receivables included in the allowance for doubtful debts.

Movement in the allowance for doubtful debts

	2017	2016
	\$m	\$m
Balance at start of the year	(3.6)	(3.6)
Amounts written off during the year	3.2	0.8
Increase in allowance recognised in profit or loss	(2.1)	(0.8)
Balance at end of the year	(2.5)	(3.6)

Ageing of past due (ii) (iii)

	2017	2016
	\$m	\$m
30 - 60 days	3.4	4.3
60 - 90 days	1.8	2.8
+90 days	5.5	5.3
Total	10.7	12.4

(ii) Included in the trade receivables balance are debtors with a carrying amount of \$8.2 million (2016: \$8.8 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 60 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 2017

10. Trade and Other Receivables (continued)

(b) Non-Current Trade and Other Receivables

Contract receivables

2017	2016
\$m	\$m
73.4	39.4
73.4	39.4

11. Current Trade and Other Payables

Trade payables (i)

Goods and Services Tax payable

2017	2016
\$m	\$m
365.5	275.3
16.4	19.1
381.9	294.4

(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

	2017		2016	
	Current	Non-current	Current	Non-current
	\$m	\$m	\$m	\$m
Employee benefits (i)	95.1	9.8	96.9	11.2
Public liability	2.9	-	4.2	-
Environmental remediation	4.2	7.7	1.6	8.7
Property make-good	6.9	6.5	7.5	8.3
Onerous contracts	10.5	20.5	7.2	14.9
	119.6	44.5	117.4	43.1

(i) The current provision for employee benefits includes \$34.7 million (2016: \$33.6 million) of vested long service leave entitlements.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

12. Provisions (continued)

Reconciliations

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

	Public liability	Environmental remediation	Property make-good	Onerous contracts
	\$m	\$m	\$m	\$m
Balance at 30 June 2015	2.6	12.5	11.3	20.1
Assumed in a business combination	1.9	1.9	7.6	23.3
Increased during the year	1.4	-	-	-
Utilised during the year	(1.7)	(2.0)	(2.6)	(21.9)
Written back during the year	-	(2.7)	(0.9)	(0.6)
Unwind of discount during the year	-	0.6	0.4	1.2
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	(1.7)	-	(4.2)	(3.7)
Unwind of discount during the year	-	1.4	0.9	2.1
Balance at 30 June 2017	2.9	11.9	13.4	31.0
Current Provisions	2.9	4.2	6.9	10.5
Non-Current Provisions	-	7.7	6.5	20.5

(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 2017

12. Provisions (continued)

(a) Accounting Policies

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that the Group will be required to settle the obligation; and
- the amount of the provision can be reliably estimated.

The amount recognised as a provision is the present value of management's best estimate of the consideration required to settle the obligation at reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense. Current provisions are not discounted.

Onerous customer contracts are recorded at the lower of the estimated unavoidable net costs of fulfilling the contract and the costs to exit the contract.

Short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Long-term employee benefits are measured as the present value of the estimated future cash outflows in respect of services provided by employees up to the reporting date.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(b) Critical Accounting Estimates

(i) Environmental provisions

The provision for remediation is based on assessments by management supported by external advisors. As remediation progresses, actual costs are being monitored against the estimated provisions made.

(ii) Property make-good provisions

The Group has made assumptions in arriving at its best estimate of the likely costs to "make good" premises which are currently occupied under operating leases or at customers' premises. Such estimates involve management forecasting the average restoration cost and are dependent on the nature of the premises occupied.

(iii) Onerous contracts provisions

The Group has recognised provisions for various contracts assessed as being onerous as at reporting date. These provisions have been calculated based on management's best estimate of discounted net cash outflows required to fulfil the contracts. The status of these contracts and the adequacy of provisions are assessed at each reporting date.

(iv) Long service leave provisions

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows for the services provided by employees in current and prior periods. In determining the present value of the liability, consideration is given to the following key assumptions:

- future increase in wages and salary rates;
- future on-cost rates; and
- attrition rates based on staff turnover history.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

Capital Structure and Financial Risk Management

This section provides information that is relevant to understanding the Group's debt, equity and its management of financial risk, including the accounting policies.

13. Cash and Cash Equivalents

2017	2016
\$m	\$m

(a) Reconciliation of cash and cash equivalents

Cash at the end of the year as shown in the cash flow statement is reconciled to the related items in the Statement of Financial Position as follows:

Cash and cash equivalents (i)

66.0	54.3
66.0	54.3

(i) Includes the completion payment for the assets of Cabrini Health Limited (\$20.0 million) which was held on trust for Spotless at 30 June 2017 (restricted cash) and released to Cabrini Health Limited on 1 July 2017.

(b) Reconciliation of (loss) / profit from ordinary activities after related income tax to net cash flows from operating activities

(Loss) / Profit for the year from continuing operations	(347.4)	122.2
Impairment and write-downs of intangible assets	330.8	-
Property, plant and equipment write-downs	34.6	-
Depreciation and amortisation	111.7	103.8
Loss / (Profit) from sales of non-current assets	6.1	(1.6)
Write-off of capitalised contract costs	9.5	8.0
Share based payment expense	6.4	0.3
(Increase) / decrease in income tax payable	10.6	(5.1)
(Increase) / decrease in deferred tax balances	(20.1)	41.6
<i>Changes in assets and liabilities, net of effects from acquisition of businesses:</i>		
(Increase) / decrease in assets:		
Receivables	(5.3)	(19.2)
Inventories	(2.2)	(1.1)
Prepayments	4.5	1.3
Increase / (decrease) in liabilities:		
Trade payables	59.8	(77.7)
Other liabilities	(8.3)	2.4
Provisions	(0.1)	(33.2)
Net cash provided by operating activities	190.6	141.7

(c) Accounting Policy

Cash and cash equivalents comprise cash on hand, cash in transit, cash in banks and investments in money market instruments. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

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:

	2017 \$m	2016 \$m
Cash and cash equivalents (Note 13(a))	(66.0)	(54.3)
<i>Current borrowings</i>		
Bank loans at amortised cost	828.0	-
Finance lease liabilities secured at amortised cost (i)	7.5	3.8
<i>Non-current borrowings</i>		
Bank loans at amortised cost	-	831.8
Finance lease liabilities secured at amortised cost (i)	12.8	8.5
Derivatives at fair value	2.3	8.0
Issued capital, reserves and accumulated losses	420.8	827.3
Total capital	1,205.4	1,625.1

(i) Secured by the assets leased.

Effective 27 June 2017, Downer acquired ownership of more than 50% of the issued share capital of Spotless. This triggered a Change of Control event under Spotless' Syndicated Facility Agreements and Bilateral Facility Agreements ("the Facility Agreements"), giving rise to an unconditional right for the Group's debt facility lenders ("the Lenders") to trigger a review of the Group's Facility Agreements ("Review Event"). Should the Lenders initiate a Review Event and both Spotless and its Lenders fail to agree appropriate amendments within 30 days of the Review Event notice (unless mutually extended), then the relevant Lenders may request prepayment of all amounts owing under the Facility Agreements (including cancellation of all outstanding commitments) 90 days after issuing the Review Event notice. As the Lenders held an unconditional right to trigger a Review Event as at reporting date, the Group's 'bank loans at amortised cost' are classified as current liabilities as at 30 June 2017.

Subsequent to 30 June 2017, the Group obtained a Review Event waiver from the lenders which deferred the Review Event until such date that Downer acquired 90% or more of the issued share capital of Spotless. At 90% ownership of the issued share capital of Spotless, Downer is entitled to compulsorily acquire the remaining issued share capital, after which Spotless would likely become a wholly owned subsidiary of Downer.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

14. Financial Instruments (continued)

(b) Financial assets and financial liabilities

	2017	2016
	\$m	\$m
Financial Assets		
Cash and cash equivalents	66.0	54.3
Trade and other receivables	486.1	469.0

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	(848.3)	(844.1)
Trade and other payables	(381.9)	(294.4)
Non-current liability	(10.4)	-
Derivatives at fair value through OCI	(2.3)	(8.0)

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

During the period, the Group amended and extended the two existing A\$75 million single currency revolving cash advance facilities as well as its existing A\$50 million single currency revolving cash advance facility. The maturity date for each facility was extended from 11 January 2018 to 11 July 2018. The total commitment for the \$50 million single currency revolving cash advance facility was reduced to \$40 million with an effective date of 1 July 2017.

The Group also extended its existing A\$115 million dual-currency cash advance facility (with a NZ\$70.0 million sub-limit) from 29 May 2018 to 29 July 2019.

As at 30 June 2017, the Group had total committed facilities of \$1,055.9 million (2016: \$1,056.0 million), of which \$830.9 million is drawn (2016: \$836.0 million).

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

14. Financial Instruments (continued)

(b) Financial assets and financial liabilities (continued)

	2017 \$m	2016 \$m
Unsecured multi-option facility, effective 28 May 2014 as amended, structured as a \$A324.9 million and a NZ\$107.0 million revolving credit facility terminating on 22 December 2018 (Facility A); and a \$A163.6 million and a NZ\$53.0 million revolving credit facility terminating 22 December 2019 (Syndicated Facility Agreement).		
Amount drawn	640.9	641.0
Amount undrawn	-	-
Unsecured A\$100 million multi-currency revolving credit facility, effective 22 December 2015 and terminating 22 December 2020.		
Amount drawn	-	-
Amount undrawn	100.0	100.0
Unsecured multi-option facility structured as a A\$115.0 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	105.0
Amount undrawn	30.0	10.0
Unsecured cash advance facilities, structured as two A\$75 million and a A\$50 million single currency revolving cash advance facilities, commencing 16 December 2014, as amended, and terminating 11 July 2018 (Bilateral Facility Agreement) (i).		
Amount drawn	105.0	90.0
Amount undrawn	95.0	110.0
Total Financing Facilities	1,055.9	1,056.0

(i) Subsequent to 30 June 2017, the Group amended and extended the maturity date of the two A\$75 million single currency revolving cash advance facilities to 1 September 2018.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

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 7(a).

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

14. Financial Instruments (continued)

(c) Financial covenants

The Group's borrowing facilities require compliance with financial covenants. The financial covenants applicable during the year comprised:

Syndicated Facility Agreement

Net Leverage Ratio

Interest Cover Ratio

Bilateral Facility Agreement

Net Leverage Ratio

Interest Cover Ratio

The Board of Directors reviews compliance with the Syndicated Facility Agreement and Bilateral Facility Agreement financial covenants on a six-monthly basis. No financial covenant was breached during the year.

(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

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 Syndicated Facility Agreement.

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 +	-	-	-	-	-

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

14. Financial Instruments (continued)

(d) Hedging activities and derivatives (continued)

2016

The Group did not enter into any interest rate swap contracts during the year ended 30 June 2016.

The cash flow hedges of the Syndicated Facility Agreement were assessed to be highly effective and a net unrealised gain of \$0.1 million was recognised in the debt hedging reserve. The fair value of the cash flow hedges was \$8.0 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	4.30%	96.0	2.79%	423.1	514.6
3-12 months	4.57%	80.0	3.46%	244.3	320.6
1-3 years	4.73%	26.5	3.79%	81.8	107.1
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 2017

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 2017, after taking into account the effect of interest rate swaps and other fixed-rate borrowings, \$127.3 million (2016: \$526.9 million) or 15% (2016: 62%) of the Group's borrowings are at a fixed rate of interest.

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 2017

14. Financial Instruments (continued)

(f) Financial risk management (continued)

Interest Rate Risk (continued)

100 basis point p.a. increase

	2017 \$m	2016 \$m
Net profit	(4.6)	(1.9)
Equity	0.7	2.4

100 basis point p.a. decrease

Net profit	4.6	1.9
Equity	(0.7)	(2.4)

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 2017, the Group had unutilised committed debt facilities of \$225.0 million (2016: \$220.0 million).

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

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 \$m	3 months to 1 year \$m	1 to 3 years \$m	More than 3 years \$m	Total \$m
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)
2016						
Trade & other payables	-	(294.4)	-	-	-	(294.4)
Bank loans (i)	3.54%	-	-	(621.9)	(214.1)	(836.0)
Finance lease liabilities	4.50%	-	(0.2)	(2.4)	(9.7)	(12.3)
		(294.4)	(0.2)	(624.3)	(223.8)	(1,142.7)

(i) Excludes deferred borrowing costs of \$2.9 million (2016: \$4.2 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, reflecting the waivers obtained subsequent to year end.

(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 2017

15. Equity

Ordinary shares issued and fully paid

	2017		2016	
	'000	\$m	'000	\$m
Balance at the beginning of the financial year	1,098,290	993.8	1,098,290	993.8
Ordinary shares issued upon exercise of rights (i)	114	-	-	-
Balance at the end of the financial year	1,098,404	993.8	1,098,290	993.8

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

	2017		2016	
	Cents per Share	\$m	Cents per Share	\$m
<i>Recognised and paid dividends</i>				
2017 interim dividend - paid 6 April 2017	1.35	14.8	-	-
2016 final dividend - paid 30 September 2016	5.0	54.9	-	-
2016 interim dividend - paid 6 April 2016	-	-	3.5	38.4
2015 final dividend - paid 25 September 2015	-	-	5.5	60.4
		69.7		98.8
<i>Unrecognised and declared dividends</i>				
2016 final dividend	-	-	5.0	54.9

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 2017.

Franking credit balance

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

	2017	2016
	\$m	\$m
Australian franking account balance as at the end of financial year at 30% (2016: 30%)	0.1	7.1
New Zealand franking account balance as at the end of financial year at 28% (2016: 28%)	16.6	13.8
	16.7	20.9

(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 2017

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 2015	48.9	9.1	35.6	198.5	138.0	430.1
Additions acquired through business combination	-	-	0.2	6.2	0.8	7.2
Additions	-	-	6.9	57.5	43.7	108.1
Disposals	-	-	-	(13.7)	-	(13.7)
Net foreign exchange variance	0.1	-	0.2	2.2	1.6	4.1
Balance at 30 June 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 (Note 7)	-	-	-	(25.0)	(9.6)	(34.6)
Net foreign exchange variance	-	-	-	-	0.6	0.6
Balance at 30 June 2017	49.0	9.1	49.4	266.6	206.6	580.7
Accumulated depreciation						
Balance at 1 July 2015	-	(0.7)	(16.9)	(51.6)	(90.6)	(159.8)
Depreciation expense	-	(0.2)	(5.4)	(31.5)	(38.4)	(75.5)
Disposals	-	-	-	3.1	-	3.1
Net foreign exchange variance	-	-	(0.1)	(0.6)	-	(0.7)
Balance at 30 June 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)
Net book value						
As at 30 June 2016	49.0	8.2	20.5	170.1	55.1	302.9
As at 30 June 2017	49.0	8.0	21.6	165.1	37.5	281.2

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

16. Property, Plant and Equipment (continued)

(a) Finance leases

The carrying value of plant and equipment held under finance lease contracts at 30 June 2017 was \$17.5 million (2016: \$11.7 million). Additions during the year include \$14.5 million (2016: \$13.1 million) of plant and equipment under finance lease contracts.

(b) Capital expenditure commitments

	2017	2016
	\$m	\$m
Plant and equipment	11.8	15.7
	11.8	15.7

(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. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. 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 2017

17. Intangible Assets	Customer contracts \$m	Software development \$m	Total \$m
Estimated useful lives	6-30 years	12 years	
Cost			
Balance at 1 July 2015	100.4	84.6	185.0
Acquisitions through business combinations	10.7	-	10.7
Additions from software development	-	16.2	16.2
Balance at 30 June 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
Accumulated amortisation and impairment			
Balance at 1 July 2015	(23.7)	(9.2)	(32.9)
Amortisation for the year	(10.1)	(5.8)	(15.9)
Balance at 30 June 2016	(33.8)	(15.0)	(48.8)
Amortisation for the year	(10.3)	(5.9)	(16.2)
Impairment (Note 7)	-	(15.1)	(15.1)
Balance at 30 June 2017	(44.1)	(36.0)	(80.1)
Net book value			
As at 30 June 2016	77.3	85.8	163.1
As at 30 June 2017	67.0	65.9	132.9

(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 live 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.

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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

17. Intangible Assets (continued)

(a) Accounting Policies (continued)

Software development (continued)

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 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.

(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.

18. Other Non-Current Assets

	2017	2016
	\$m	\$m
Capitalised contract costs	28.6	49.4
Other	5.9	8.2
	34.5	57.6

(a) Accounting Policy

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

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.

	2017 \$m	2016 \$m
Non-cancellable operating leases		
Not longer than 1 year	37.6	44.6
Longer than 1 year and not longer than 5 years	81.2	88.8
Longer than 5 years	36.1	41.4
	154.9	174.8

(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:

	2017		2016	
	Minimum payments \$m	Present value of payments \$m	Minimum payments \$m	Present value of payments \$m
Not longer than 1 year	8.2	7.6	4.3	3.8
Longer than 1 year and not longer than 5 years	13.3	12.7	8.9	8.5
Longer than 5 years	-	-	-	-
Minimum finance lease payments	21.5	20.3	13.2	12.3
Less future finance charges	(1.2)	-	(0.9)	-
Present value of minimum lease payments	20.3	20.3	12.3	12.3

(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 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 2017

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 Two Seven Pty Ltd	(a) (c)
Spotless Group Limited	(a) (c)	Aladdin 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) (c)
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 Pty Ltd	(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 2017

20. Controlled Entities (continued)

Consolidated 2017 \$m	Consolidated 2016 \$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	2,601.3	2,794.8
Other income	23.5	20.2
	2,624.8	2,815.0
Direct employee and subcontractor expenses	(1,776.0)	(1,861.2)
Raw materials, consumables and finished goods used	(399.8)	(437.5)
Other expenses	(655.5)	(228.1)
(Loss) / Profit before depreciation, finance costs and income tax (EBITDA)	(206.5)	288.2
Depreciation and amortisation expense	(98.8)	(91.9)
(Loss) / Profit before finance costs and income tax (EBIT)	(305.3)	196.3
Net finance costs	(36.4)	(32.4)
(Loss) / Profit before income tax	(341.7)	163.9
Income tax benefit / (expense)	9.0	(40.8)
(Loss) / Profit for the year	(332.7)	123.1

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

20. Controlled Entities (continued)	Consolidated 2017 \$m	Consolidated 2016 \$m
Current assets		
Cash and cash equivalents	60.2	39.7
Trade and other receivables	364.6	407.6
Inventories	27.6	25.6
Prepayments	11.1	11.8
Total current assets	463.5	484.7
Non-current assets		
Investments accounted for using the equity method	0.6	0.3
Investment in subsidiaries	34.0	34.0
Trade and other receivables	73.3	23.0
Property, plant and equipment	253.7	270.1
Goodwill	753.4	1,032.0
Intangible assets	132.9	163.1
Deferred tax assets	113.6	105.6
Other	32.2	69.0
Total non-current assets	1,393.7	1,697.1
Total assets	1,857.2	2,181.8
Current liabilities		
Trade and other payables	333.9	257.7
Borrowings	682.2	3.4
Current tax payable	8.2	-
Provisions	107.2	105.2
Derivatives at fair value	1.6	3.9
Total current liabilities	1,133.1	370.2
Non-current liabilities		
Amounts due to related parties	0.1	0.1
Borrowings	11.6	686.8
Deferred tax liabilities	76.6	96.6
Provisions	41.1	42.4
Derivatives at fair value	-	1.6
Other	11.7	7.6
Total non-current liabilities	141.1	835.1
Total liabilities	1,274.2	1,205.3
Net assets	583.0	976.5
Equity		
Issued capital	993.8	993.8
Reserves	28.4	19.5
Accumulated losses (i)	(439.2)	(36.8)
Total equity	583.0	976.5

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

20. Controlled Entities (continued)

	Consolidated 2017 \$m	Consolidated 2016 \$m
<i>(i) Accumulated losses</i>		
Balance at beginning of the year	(36.8)	(61.1)
Net (loss) / profit attributable to members of the parent entity	(332.7)	123.1
Dividends paid	(69.7)	(98.8)
Balance at end of the year	(439.2)	(36.8)

21. Business Combinations

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 accounting for this acquisition remains provisional as at 30 June 2017 and will be finalised within 12 months of acquisition date, as the Group continues to assess the fair value of assets acquired and liabilities assumed. The primary reason for acquiring Nuvo is to broaden the capacity to deliver long life integrated services.

Acquisition related transaction costs of \$0.7 million (2016: \$1.5 million for 2016 acquisitions) were recognised in other expenses in the Statement of Profit or Loss and Other Comprehensive Income during the period.

The aggregated fair values of the identifiable assets and liabilities of Nuvo as at the date of acquisition, which will be finalised within 12 months of acquisition date, are noted in the following table:

	Provisional at 30 June 2017 \$m
Assets	
Property, plant and equipment	0.3
Cash overdraft	(1.4)
Trade and other receivables	11.2
Inventories	0.1
Prepayments	0.1
Other assets	3.2
	13.5
Liabilities	
Trade and other payables	22.2
Employee provisions	1.3
Non-employee provisions	3.0
Other liabilities	1.7
	28.2
Total identifiable net assets / (liabilities) at fair value	(14.7)
Purchase consideration transferred - cash	23.9
Intercompany amounts payable to the Group on acquisition	(1.5)
Goodwill arising on an acquisition	37.1

Nuvo contributed \$47.9 million of revenue and \$4.7 million to profit after tax for the year ended 30 June 2017. If the acquisition had taken place at the start of the period, annualised revenue from continuing operations for the Group would have been \$3,150.0 million, and loss after tax for the Group would have been \$333.3 million for the year ended 30 June 2017.

The goodwill of \$37.1 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 2017

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.

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

	2017	2016
	\$m	\$m
Balance at the beginning of the year	1,032.0	911.4
Acquired in a business combination (Note 21)	37.1	120.6
Impairment loss (Note 22(c))	(315.7)	-
Balance at the end of the year	753.4	1,032.0

(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.

Effective 1 March 2017, the Group reallocated the level at which goodwill is assessed to incorporate changes as a result of the contract portfolio rationalisation and to reflect the manner in which the business is internally managed and reported. Goodwill previously recognised at the sector level has been elevated to a Facility Services segment level. The goodwill allocated to the Laundries segment remains unchanged.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

22. Goodwill (continued)

(b) Allocation of Goodwill (continued)

Accordingly, for the purposes of impairment testing at 30 June 2017, the balance of goodwill has been allocated to the following CGUs.

	2017
	\$m
Facility Services	674.8
Laundries	78.6
Balance at the end of the year	753.4

In contrast, for the purposes of impairment testing at 31 December 2016, and consistent with historical allocations, goodwill was allocated to the following CGU's, which reflected the industries in which the Group's customers operate.

	As at 31 Dec 2016 \$m	As at 30 Jun 2016 \$m
Facility Services		
AE Smith	78.0	49.0
Business and Industry	48.4	170.7
Defence	50.5	50.5
Education	61.1	61.1
Government	123.8	123.8
Health	86.1	86.1
Public Private Partnerships	48.2	48.2
Resources	3.2	102.4
Sports and Leisure	79.3	79.3
UASG	88.1	88.1
Total Facility Services	666.7	859.2
Laundries	78.6	172.8
Balance at the end of the year	745.3	1,032.0

(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 2017, the Group performed impairment testing at both 31 December 2016 and 30 June 2017. A goodwill impairment loss of \$315.7 million was recognised in the Statement of Profit or Loss and Other Comprehensive Income at 31 December 2016. No additional goodwill impairment loss was recognised as part of the annual impairment testing at 30 June 2017.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

22. Goodwill (continued)

(c) Impairment Testing of Goodwill (continued)

31 December 2016 Impairment Testing of Goodwill

In 1H17, the Group commenced a review of the number of poor performing and single service contracts resulting in an indicator of impairment as at 31 December 2016. The assessment of the recoverable amount of the CGU's (prior to the reallocation of goodwill), including any associated goodwill, determined that the carrying amount exceeded the recoverable amount for the previous CGU's of Business and Industry, Resources and Laundries, requiring a goodwill impairment loss of \$315.7 million to be recognised in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income, as outlined in the table below:

	Recoverable Amount	Impairment – Goodwill
	\$m	\$m
CGU		
Business and Industry	89.5	122.3
Resources	31.1	99.2
Total Facility Services	120.6	221.5
Laundries	322.6	94.2
Total	443.2	315.7

The discussion below outlines the Group's methodology and approach at 31 December 2016 in which a goodwill impairment loss was recognised.

(i) Methodology and Testing of Recoverable Amount

Value in Use

The recoverable amount of all CGUs, except for the Resources CGU, was determined based on a value in use ("VIU") calculation.

Key Assumptions

Value in Use

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

i) Cash Flows

Cash flows were based on a contract profitability forecast (reflecting the expected reduction of poor performing and single service contracts) 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

Discount rates applied in the testing of recoverable amount reflected the pre-tax weighted average cost of capital for the respective CGUs (12.8% for Facility Services CGUs and 13.8% for the Laundries CGU) and was reflective of the market assessment of the risks specific to each CGU taking into consideration the time value of money.

iii) EBITDA Growth

EBITDA growth was 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 ranged from 2.9% to 7.0% between years 2 and 5.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

22. Goodwill (continued)

(c) Impairment Testing of Goodwill (continued)

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

iv) Long Term Growth rate

Management applied a long-term growth rate of between 2.0% and 3.0% beyond the 5 year forecast period and into perpetuity. This range was considered to be in line with, and in some instances below external market expectations of long term growth in these industries.

Fair Value Less Costs of Disposal

The recoverable amount of the Resources CGU was determined based on a fair value less costs of disposal basis using a discounted cash flow valuation technique. The costs of disposal were estimated by management based on prevailing market conditions. As there were no quoted prices or active markets for the Resources CGU, the valuation was largely based on Level 3 inputs in accordance with AASB 13 *Fair Value Measurement*. Each of the key inputs is described further below.

Key Assumptions

The following key assumptions were used to determine the recoverable amount of the Resources CGU under a fair value less costs of disposal basis:

i) Cash Flows

Cash flows were based on a contract profitability forecast (reflecting the expected reduction of poor performing and single service contracts) using the growth rates detailed in point iii) for subsequent years and a terminal value based on the long-term growth rate. The cash flows comprised earnings before interest, depreciation and amortisation from the Resources CGU net of expected working capital movements (as a surrogate for cash flows) and sustainable levels of maintenance capital expenditure.

ii) Discount rate

The recoverable amount of the Resources CGU was determined by applying a post-tax discount rate of 9.0%. The post-tax discount rate was based on the post-tax weighted average cost of capital for the Resources CGU reflecting the market assessment of the risks specific to the Resources CGU and taking into consideration the time value of money.

iii) EBITDA Growth

EBITDA growth was based on management's experience in the sector, from observable industry trends and data, and growth prospects given current revenue pipelines. The Resources CGU applied a 10 year model, comprising a forecast and a compound annual growth rate of negative 2.5% over this period. The 10 year model more accurately reflected management's current view of the economic cycle of the Resources industry.

iv) Long Term Growth rate

Management applied a long-term growth rate of 3.0% beyond the forecast period and into perpetuity. This rate was considered to be in line with, and in some instances below 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 2017

22. Goodwill (continued)

(c) Impairment Testing of Goodwill (continued)

30 June 2017 Impairment Testing of Goodwill

Impairment testing at 30 June 2017 was undertaken at the Facility Services and Laundries CGU level, following the reallocation of goodwill as at 1 March 2017. The discussion below outlines the Group's methodology and approach at 30 June 2017 for impairment testing.

(i) Methodology and Testing of Recoverable Amount

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 (12.6% for the Facility Services CGU and 14.0% 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 2.9% to 3.1% 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, and in some instances below 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 2017

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	(25.7)
1.0% decrease in the compound annual EBITDA growth rate	(12.7)
1.0% decrease in the long-term growth rate	(17.4)

23. Parent Entity Disclosures

As at 30 June 2017 the parent company of the Group was Spotless Group Holdings Limited.

	2017 \$m	2016 \$m
Result of the parent entity		
Profit / (Loss) after tax for the year	142.8	(3.2)
Other comprehensive income	-	-
Total comprehensive loss for the year	142.8	(3.2)
Financial position of the parent entity at year end		
Current assets	-	0.2
Non-current assets	1,438.9	1,433.5
Total assets	1,438.9	1,433.7
Current liabilities	378.7	272.1
Non-current liabilities	15.1	200.7
Total liabilities	393.8	472.8
Net assets	1,045.1	960.9
Total equity of the parent entity at year end comprised:		
Issued capital	993.8	993.8
Reserves	18.0	6.9
Retained earnings	33.3	(39.8)
Total equity	1,045.1	960.9

During the year, the Company received \$160.0 million (2016: \$12.0 million) in dividends from its wholly-owned subsidiary.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

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 2017 (2016: 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:

	2017	2016
	\$	\$
Short-term employee benefits (i)	4,923,482	4,949,922
Long-term benefits	42,175	39,325
Post-employment benefits	156,496	172,831
Termination benefits	-	678,998
Share-based payments	4,194,093	313,000
	9,316,246	6,154,076

(i) The short-term employee benefits for the comparative period have been re-stated by \$152,292. In the 2016 Remuneration Report, Table 10 stated that Mr Martin Sheppard received a bonus of \$609,169. The actual net amount paid to Mr Sheppard subsequent to the completion of the 2016 Remuneration Report was \$456,877. The comparative amount in the table above has been amended to reflect this.

(c) Key management personnel equity interests

As at 30 June 2017 key management personnel held 2,492,917 (2016: 4,385,377) fully paid shares and 7,676,879 (2016: 2,432,590) 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.

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 2017

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.

No material amounts were charged or recharged by any other related parties (2016: 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.

	2017 Number	2017 WAEP (i)	2016 Number	2016 WAEP (i)
(a) Executive Options and Rights				
Balance at the beginning of the financial year	9,240,929	1.85	4,026,442	1.60
Granted during the year	6,791,884	0.50	8,333,763	1.95
Forfeited during the year	(2,509,478)	1.96	(3,119,276)	1.78
Exercised during the year	(113,785)	-	-	-
Balance at the end of the financial year	13,409,550	1.16	9,240,929	1.85

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

The weighted average share price at the date of exercise for share options exercised during the year was \$1.12.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

25. Share-based Payment (continued)

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

	2017	2016
	\$	\$
Executive options granted on 23 May 2014 (i)	190,269	(55,853)
Executive options granted on 28 September 2015 (i)	815,368	197,492
Executive options and rights granted on 22 October 2015 (ii)	1,435,019	166,225
Executive options granted on 13 April 2016 (iii)	216,108	25,515
Modification of options and rights granted 22 October 2015 (effective 13 April 2016) (ii)	1,610,506	52,645
Modification of options granted 28 September 2015 (effective 16 June 2016) (iv)	47,737	1,974
Executive rights granted on 24 November 2016 (i)	2,005,329	-
	6,320,336	387,998

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 2017

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 2017

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 2017

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

	2017	2016
	\$m	\$m
Legal proceedings (i)	-	-
Bank guarantees, insurance bonds and letters of credit (ii)	144.3	139.5
Catering rights	130.6	150.6

(i) On 24 February 2017, Anthony Simonetta and Joanne Simonetta, as applicants, commenced a representative proceeding in the Federal Court of Australia on behalf of shareholders who acquired the Company's shares between 25 August 2015 and 2 December 2015. The proceeding is funded by IMF Bentham Ltd. The applicants under this proceeding allege 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. On 20 June 2017, IMF Bentham Ltd announced that, subject to the Court's approval of the discontinuance of the proceeding, it will cease funding the proceeding. The applicants have applied to the Federal Court for leave to discontinue the proceeding. That application has not yet been heard.

On 25 May 2017, Alison Court, as applicant, filed a further 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 2017 in respect of the representative proceedings.

Other than the above, the Group does not have any material contingent liabilities in respect of legal proceedings as at 30 June 2017 (30 June 2016: 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.

27. Remuneration of Auditors

	2017	2016
	\$	\$
Auditor of the parent entity (i)		
Auditing the financial statements	1,600,000	1,100,000
Other services:		
Other assurance services	43,450	192,304
Due diligence services	447,306	-
Taxation services	428,632	264,577
Other non-audit services	126,257	274,652
	2,645,645	1,831,533

(i) The auditor of Spotless Group Holdings Limited is Ernst & Young.

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2017

28. Events After the Reporting Period

On 1 July 2017, the Group acquired the assets and associated customer contracts of Cabrini Health Limited's laundry business. Due to the short period of time between the acquisition date and the date of these financial statements, full acquisition disclosures have not been provided and purchase accounting remains provisional.

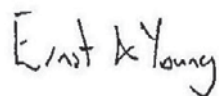
Other than the above, there has not been any other matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial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

Auditor's independence declaration to the Directors of Spotless Group Holdings Limited

As lead auditor for the audit of Spotless Group Holdings Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Spotless Group Holdings Limited and the entities it controlled during the financial year.



Ernst & Young



Tim Wallace
Partner
24 August 2017

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 2017 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 2017.

Signed in accordance with a resolution of the Directors.

On behalf of the Board of Directors



G Hounsell
Chairman
Melbourne, 24 August 2017



D Nelson
Chief Executive Officer & Managing Director
Melbourne, 24 August 2017

Independent Auditor's Report to the Members 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) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, 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 to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

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

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

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 2 in the financial report which describes the uncertainty that exists in relation to the Group's continued access to existing finance facilities, or access to renewed finance facilities, in the event that Downer EDI Limited progress to 90% ownership of Spotless Group Holdings Limited. These conditions, along with other matters as set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, realise its assets and discharge its liabilities in the normal course of business.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Contract portfolio changes and disclosures

Why significant	How our audit addressed the key audit matter
<p>During the year, the Group began to implement its 'strategy reset' with a focus on long-dated, expandable, multi-service contracts. As part of this, the Group:</p> <ul style="list-style-type: none"> reassessed the business and made a number of structural changes, including changes to the way in which the business' operations are managed and financial performance is monitored; completed a detailed analysis of its existing contract portfolio to identify underperforming contracts, and other contracts to be exited under the strategy reset; and assessed the recognition and recoverability of capitalised contract costs, including bid and mobilisation costs. <p>The activities resulted in the impairment of goodwill, write-down of property, plant and equipment and intangible assets and recognition of provisions for contracts that were considered onerous ("onerous contract provisions").</p> <p>Note 7 to the financial report includes costs, recorded as a result of the contract portfolio analysis undertaken as part of the 'strategy reset'. These costs are expected to be related to the activities from the strategy reset and the Group has disclosed these costs separately by virtue of their nature or size.</p> <p>Given the significant financial report consequences of the strategy reset, the measurement of goodwill impairment and write-down of intangible and other assets, the incurrence of costs of implementing the strategy reset recognition and measurement of onerous contract and other provisions has been considered a Key Audit Matter.</p>	<p>Our audit considered the accounting impacts of the strategy reset.</p> <p>We evaluated the Group's process to identify those contracts that would be affected by the decision to rationalise the contract base. In doing so, we:</p> <ul style="list-style-type: none"> obtained an understanding of the process and the contracts identified; and assessed the accuracy of the Group's contracts schedule by agreeing, for a sample of contracts, the information contained in the contracts schedule to underlying contracts. <p>For a sample of contracts identified by the Group to be exited, we:</p> <ul style="list-style-type: none"> evaluated the Group's estimate of residual contract lives, assumptions and estimated future contract performance against the Board approved budgets and recent contract performance for comparable contracts to assess whether there is a reasonable basis for the Group's assessment of expected contract losses; and assessed the Group's calculation of the recoverable amount of contract-specific assets, and evaluated the contract assumptions used to assess contract profitability to measure onerous contract provisions.

2. Carrying value of non-current assets including goodwill

Why significant	How our audit addressed the key audit matter
<p>Under Australian Accounting Standards, the Group is required to test intangible assets with an indefinite life (including goodwill) for impairment annually and test other non-current assets for impairment where an indicator of impairment exists.</p> <p>During the year, the Group reassessed the business and made a number of structural changes, including changes to the way in which the businesses operations are managed and financial performance is monitored. These changes resulted in a reassessment of the Group's identified Cash Generating Units (CGUs) to which goodwill is allocated. As disclosed in Note 22 to the financial report, the Group has reallocated the goodwill from the group of CGU's representing industry sectors to its Reportable Segments, being Facility Services and Laundries. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.</p> <p>Judgement is required to assess the allocation of goodwill to the appropriate level of CGU and that any allocation is performed on a reasonable and consistent basis.</p> <p>Immediately prior to the reallocation of goodwill, the Group initiated a detailed review of its existing contract portfolio and identified a number of underperforming and single service contracts that did not align to the Group's strategy reset to focus on long-dated, expandable, multi-service contracts. The Group assessed the carrying value of the contract-specific assets based on the future cash flows from these contracts, and recorded write-downs as disclosed in Note 7 to the financial report. In addition, the Group considered this was an indicator of impairment and undertook an assessment of the carrying value of Goodwill based on the estimated future cash flows from the existing CGUs prior to reallocation. The Group recognised an impairment loss on goodwill of \$315.7m at 31 December 2016.</p> <p>At 30 June 2017, the Group completed its annual impairment assessment of goodwill based on the reallocation to Facility Services and Laundries CGUs. No further impairments of goodwill were recognised.</p> <p>Impairment testing is a Key Audit Matter because the recoverable amount is affected by expected future market or economic conditions and the achievement of forecast cash flow and growth assumptions, which are judgemental.</p>	<p>We considered the Group's impairment assessment and the determination of the Group's CGUs, and assessed the compliance of the reallocation of goodwill with Australian Accounting Standards.</p> <p>We evaluated the Group's impairment assessment and the impairment losses recognised during the year. Our procedures included the following:</p> <ul style="list-style-type: none"> Assessed the cash flow forecasts and valuation methodology used by the Group to determine whether they reflected current market conditions and industry practice. Performed sensitivity analysis on a number of inputs, including the historical accuracy and achievement of cash flow forecasts, discount rates, long term and terminal growth rates to assess whether the recoverable amounts derived by the Group were within a range of possible outcomes. Considered external information where possible, including market capitalisation and implied EBITDA multiples to assess whether the carrying amount of assets were supportable. <p>Our audit procedures were performed with involvement from our valuation specialists.</p> <p>We assessed the Group's sensitivity analysis over changes in key inputs and assumptions to which the impairment outcomes were most sensitive, and assessed the Group's disclosures of the sensitivities in the financial report.</p>

3. Revenue recognition

Why significant	How our audit addressed the key audit matter
<p>The Group's sources of revenue, disclosed in Note 5, that are most significant to our audit are from the rendering of services, including from construction contracts, due to their complexity and judgement involved.</p> <p>Australian Accounting Standards require revenue from the rendering of services and construction contracts to be recognised with reference to their stage of completion, which involves judgement in the estimation of costs to complete.</p> <p>Future costs required to complete committed services may differ from amounts included in the measurement of revenue recognised for the year.</p>	<p>For rendering of services, we tested the recognition of revenue for a sample of transactions during the year by agreeing amounts to customer contracts and obtaining evidence of customer acceptance of delivery where relevant.</p> <p>We performed procedures over significant construction contracts, including testing of costs and progress billings, analysis of the estimates of costs to complete, and re-performing the percentage of completion calculation at year end. We obtained evidence to support the recognition of significant variations and claims included in project revenue.</p> <p>We also assessed the timing of recognition of revenue and cut-off at year end by testing a sample of transactions, both prior to and subsequent to balance date, to assess whether revenue was recognised in the appropriate accounting period and in accordance with Australian Accounting Standards.</p>

4. Debt classification

Why significant	How our audit addressed the key audit matter
<p>As disclosed in Note 14, the Group's Syndicated and Bilateral debt facility arrangements incorporate Change of Control conditions that were activated prior to 30 June 2017.</p> <p>These conditions triggered a Review Event which provided the Group's lenders with the ability to review the continued access to existing facilities.</p> <p>Subsequent to year end, the Group obtained waiver agreements from its debt facility providers, effectively waiving the right to issue a Review Notice while Downer EDI Limited's beneficial ownership is less than 90%.</p> <p>At 30 June 2017 the Group did not have an 'unconditional right' to defer settlement of the liability for at least twelve months after the reporting period. Under Australian Accounting Standards, an entity shall classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.</p> <p>In accordance with Australian Accounting Standards, the Group has classified the debt facilities as Current Liabilities at 30 June 2017.</p>	<p>We evaluated the classification of the Group's debt facilities based on the terms and conditions of the Syndicated and Bilateral facility agreements in place at balance date.</p> <p>We obtained the consent to waiver between the Group and each of the debt facility providers to confirm the details of the rights being waived subsequent to balance date.</p>

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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_files/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

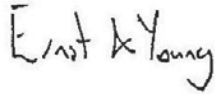
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 28 of the Directors' Report for the year ended 30 June 2017.

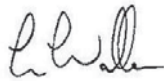
In our opinion, the Remuneration Report of Spotless Group Holdings Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



Ernst & Young



Tim Wallace
Partner

Melbourne
24 August 2017

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, its Board Charter and the Protocol.

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 of is comprised of:

- John Humphrey (Chairman, appointed on 24 August 2017)
- Dana Nelson (Chief Executive Officer & Managing Director)
- Phil Garling (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. Spotless provides shareholders with all material information in its possession that is relevant to their decision on whether or not to elect or re-elect a director 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 the 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 and directors' duties, advising the Board on corporate 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.

The Board has entered into a protocol with Downer in respect of the nomination of directors by Downer to the Board commensurate with its controlling interest in Spotless and in relation to the governance arrangements between Spotless and Downer ("Protocol").

Corporate Governance Statement (continued)

The Board (continued)

Whilst Downer holds voting power in Spotless of more than 50%, the Board, subject to exercising their fiduciary or statutory rights to approve an appointment, will invite Downer to nominate such number of directors ("Downer Nominees") that reflects (to the extent possible) the voting power in Spotless held by Downer to fill a casual vacancy on the Board or as an addition to the Board (subject to the maximum number of directors specified in Spotless' Constitution). In the event that, at any time, Downer's voting power in Spotless falls below 50%, Downer has agreed to procure the resignations of such number of directors nominated by it so that the number of Downer Nominees on the Board reflects (to the extent possible) the lower voting power in Spotless and any rights of Downer to nominate directors under the Protocol will be suspended.

In accordance with the Protocol, four Downer Nominees were appointed to the Board and four Spotless non-executive directors have resigned from the Board. Downer consequently has majority representation on the Board as at the date of this statement.

The following non-executive directors were appointed as the Downer Nominees to the Board and are accordingly not considered to be independent directors for the purpose of the ASX Recommendations:

- John Humphrey (Chairman)
- Philip Garling (Non-Executive Director)
- Grant Thorne (Non-Executive Director)
- Michael Ferguson (Non-Executive Director)

The Downer Nominees will retire from office at the next Annual General Meeting following their appointment and will be eligible for election as directors at the Annual General Meeting.

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

Simon McKeon is considered to be independent and is designated as the Senior Independent Director under the Protocol.

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 and protocol

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.

The Board has also entered into a Protocol with Downer which sets out the procedures and principles applicable to the governance arrangements between Spotless and Downer as its controlling shareholder.

The Protocol outlines principles applying to the participation of Downer Nominees in the affairs of Spotless including in relation to the provision of confidential information and in managing conflicts of interests.

In circumstances of actual or potential conflicts of interests between the duties and obligations which a Downer Nominee owes to Spotless and to Downer ("Excluded Matter"), the Downer Nominee must not be given confidential information related to the Excluded Matter and must not be present during discussion of, or vote on any resolution to the extent relating to the Excluded Matter. Deliberations in relation to Excluded Matters will be undertaken by a committee of the Board comprised of the Senior Independent Director and the Managing Director.

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.

Under the Board Charter, Board committee performance evaluations will occur at least once per year.

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 2017.

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 currently comprises Grant Thorne (chair), John Humphrey, Michael Ferguson, Philip Garling, and Simon McKeon.

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 currently comprises Simon McKeon (chair), John Humphrey, Philip Garling and Grant Thorne.

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 currently comprises John Humphrey (chair) and 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.

The gender breakdown within the whole of Spotless, in senior executive, senior management positions and on the Board is as follows:

	Female	Male
Board representation	17%	83%
Senior executive personnel	33%	67%
Senior management personnel	30%	70%
Whole of Spotless	51%	49%

"Senior executive personnel" are defined to include the executive KMP.

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

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.	1 out of 6 positions (17%) on the Board are held by women.
25% of senior management positions will be held by women by 2017.	50% of executive KMP positions are held by women. 30% of other senior management 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 51% female and 49% male representation across the business. Recruitment practices have been reviewed and there has been an increase in the percentage of applications from women for roles within estate upkeep and asset maintenance service lines as well as management and administration.
Ensure gender pay equity reviews are undertaken annually.	A gender pay equity review has been undertaken in 2017.
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 six other languages in recognition of our diverse workforce. Training on the policy is compulsory for all new staff.

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 committee and individual directors

Spotless' Board Charter details a process for the review of Board, committee and individual directors' performance. A review was undertaken during the reporting period.

Directors are provided with appropriate professional development opportunities to enable them to develop and maintain their skills and knowledge needed to perform their role as directors effectively.

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, Board Charter and the Protocol.

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, Ernst & Young was appointed in 2013.

Ernst & Young 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. Ernst & Young's independence declaration is contained on page 86.

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 2017, 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.

Approved by the Board
30 October 2017

Shareholder Information

as at 9 October 2017

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	437	188,235	0.02
1,001 – 5,000	391	1,145,190	0.10
5,001 – 10,000	185	1,424,416	0.13
10,001 – 100,000	203	5,047,941	0.46
100,001 – and over	21	1,094,434,100	99.29
Total	1,237	1,102,239,882	100.00

The number of shareholders holding less than a marketable parcel of shares is 212 and they hold 15,585 shares.

There are 5,783,070 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	88,759,344	8.05
4	CITICORP NOMINEES PTY LIMITED	28,293,212	2.57
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,521,587	0.59
6	SUSAN MALENA WILLIAMS	532,730	0.05
7	SIMON MCKEON	500,000	0.05
8	JODRIK PTY LTD	400,000	0.04
9	NULIS NOMINEES (AUSTRALIA) LIMITED	238,314	0.02
10	CS FOURTH NOMINEES PTY LIMITED	210,180	0.02
11	BROS NOMINEES PTY LTD	200,000	0.02
12	PULITANO FAMILY SUPERANNUATION PTY LTD	166,133	0.02
13	G H KLUGE & SONS LTD	150,000	0.01
14	ARTHUR OLIVER AVIS & WENDY KAY PERRIN	148,534	0.01
15	J P MORGAN NOMINEES AUSTRALIA LIMITED	147,742	0.01
16	CUSTODIAL SERVICES LIMITED	138,565	0.01
17	BT PORTFOLIO SERVICES LIMITED	125,649	0.01
18	IOOF INVESTMENT MANAGEMENT LIMITED	117,793	0.01
19	C V M & CO PTY LTD	100,000	0.01
20	NATIONAL NOMINEES LIMITED	99,225	0.01

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
Philip Garling
Grant Thorne
Michael Ferguson

Company Secretary

Paul Morris

Auditor

Ernst & Young
8 Exhibition Street
Melbourne, VIC, 3000, 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
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Registered Office

Australia
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Telephone: +61 3 9269 7600

Corporate Website

<http://www.spotless.com>



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