

Spotless Group Holdings Limited

Appendix 4E

Preliminary final report for the year ended 30 June 2019

Name of entity	Current Period
Spotless Group Holdings Limited	Year ended 30 June 2019
ABN	Prior Corresponding Period
27 154 229 562	Year ended 30 June 2018

Results for Announcement to the Market	% Movement compared to prior period	Current Period A\$
Revenue from ordinary activities	Down 0.6%	to \$3,025.1 million
Reported earnings from ordinary activities before interest and tax	Up >100%	to \$159.0 million
Reported net profit from ordinary activities after tax	Up >100%	to \$84.0 million
Reported net profit attributable to members	Up >100%	to \$84.0 million
Reported profit per share (cents)	Up >100%	to 7.6 cents

Dividends	Final Dividend 2019	Final Dividend 2018	Interim Dividend 2019	Interim Dividend 2018
Amount per share	Nil	Nil	Nil	Nil
Franked amount	Nil	Nil	Nil	Nil

Fiscal 2019 dividend dates

	Final Dividend	Interim Dividend
Record date	Nil	Nil
Payment date	Nil	Nil

Ratios	30 June 2019	30 June 2018
Net tangible asset backing per share (cents)	-43.8 c	-40.2 c

Audited Results

This report is based on the financial statements that have been the subject of an independent audit and are not subject to any dispute or qualification. The detailed annual financial statements are attached to this report.

Enquiries:

Michael Sharp
Group Head of Corporate Affairs and Investor Relations
M +61 439 470 145

SPOTLESS GROUP HOLDINGS LIMITED

**ABN 27 154 229 562
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2019**

INDEX

Directors' Report	3
Consolidated Statement of Profit or Loss and Other Comprehensive Income	26
Consolidated Statement of Financial Position	27
Consolidated Statement of Changes in Equity	28
Consolidated Cash Flow Statement	29
Notes to the Financial Statements for the year ended 30 June 2019	30
Lead Auditor's Independence Declaration	85
Directors' Declaration	86
Independent Auditor's Report	87

Directors' Report

The Directors hereby present their report for the year ended 30 June 2019. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Directors

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

Director Profiles

Professor John Humphrey

Chairman, Non-Executive Director

LLB

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

He served as independent Non-Executive Director at Downer between 2001 and 2016. He is currently a Legal Consultant to King & Wood Mallesons. John is also currently a Director at Lynas Corporation Ltd and the Chairman of Auswide Bank Limited. He is a former member of the Australian Takeovers Panel and was the Executive Dean of the Faculty of Law at Queensland University of Technology from 2013 to 2019.

Peter Tompkins

Chief Executive Officer and Managing Director

BCom, LLB

Peter was appointed Chief Executive Officer and Managing Director on 16 October 2018.

Prior to this appointment, Peter held the role of the Group General Counsel and Company Secretary of Downer Group for seven years, where he was a key member of the Executive Committee and Tenders and Contracts Committee.

Peter also represented Downer on numerous joint venture and Public Private Partnership Boards, including Keolis Downer, Evolution Rail and Reliance Rail.

Michael Ferguson

Non-Executive Director

BCom, CA

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

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

Directors' Report (continued)

Director Profiles (continued)

Simon McKeon AO

Non-Executive Director

BCom, LLB, DPH, FAICD

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

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

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

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

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

Grant Thorne

Non-Executive Director

BSc (Hons), PhD, FAusIMM, GAICD

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

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

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

Dr Thorne also holds directorships with a number of private companies.

He holds Bachelor and Doctoral degrees in Metallurgy from the University of Queensland and is a Graduate of the Australian Institute of Company Directors.

Directors' Report (continued)

Director Profiles (continued)

Grant Anthony Fenn

Non-Executive Director

BCom, CA

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

He was previously a Member of the Qantas Executive Committee, holding a number of senior roles over 14 years, as well as Chairman of Star Track Express and a Director of Australian Air Express. He worked at KPMG for eight years before he joined Qantas.

Grant is currently a Director of Sydney Airport Limited and Spotless Group Holdings Limited and a Member of the UTS Engineering and IT Industry Advisory Board.

Grant holds a Bachelor of Economics from Macquarie University and is a member of the Australian Institute of Chartered Accountants.

Dana Nelson

Chief Executive Officer and Managing Director

Retired effective 15 October 2018.

Company Secretary

Paul Morris

BEd (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' Meetings

Name	Board (Monthly Meeting)		Audit, Business Risk and Compliance Committee		People and Remuneration Committee	
	A	B	A	B	A	B
Professor John Humphrey	9	9	6	6	5	5
Peter Tompkins	6	6	-	-	-	-
Simon McKeon	9	9	6	6	5	5
Grant Thorne	9	9	6	6	5	5
Michael Ferguson	9	9	6	6	-	-
Grant Fenn	9	9	-	-	-	-
Dana Nelson	3	2	-	-	-	-

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.

Directors' Report (continued)

Shareholdings

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

- Simon McKeon AO - 800,000 shares

Principal activities

The principal activities of Spotless Group Holdings Limited and its subsidiaries during the year ended 30 June 2019 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 2019

- Sales Revenue of \$3,025.1 million, down 0.6% from the prior corresponding period, reflecting the impact of contracts exited in FY18, partially offset by newly mobilised contracts. The comparative period includes a writeback of \$41.0 million of revenue relating to the new Royal Adelaide Hospital contract (included in individually significant items).
- EBIT of \$159.0 million, increased from FY18 by \$132.9 million due to the comparative period being significantly impacted by \$130.6 million of individually significant items recorded as a result of the Downer takeover and contract rationalisation and restructure. There were no individually significant items in the current period. Underlying EBIT is comparable to the prior year despite the significant decline in revenue due to the impact of FY18 exit of low margin / loss making contracts, and the continued focus on margin improvement.
- Profit after tax of \$84.0 million increased from FY18 by \$86.3 million due to the impact of the above mentioned individually significant items (\$88.4 million after tax) on the comparative period comprising goodwill impairment (\$40.0 million), contract rationalisation and restructure costs (\$9.1 million), management redundancies and integration costs (\$9.7 million) and other balance sheet adjustments (\$29.6 million).
- Operating cash flows of \$139.9 million increased by \$3.9 million from the prior year, continuing the improvement demonstrated in FY18. The improvement was driven by further continued focus on cash management and a reduction in the cash losses incurred on the new Royal Adelaide Hospital contract.
- Net debt of \$683.5 million decreased by \$57.5 million from FY18 attributable to the above mentioned continued operating cash flow improvement and ongoing management of capital expenditure.
- Opening retained losses were impacted by \$104.5 million of adjustments upon the adoption of AASB 15 'Revenue from Contracts with Customers'.
- The Directors have determined there will be no final dividend for the year ended 30 June 2019.

Year Ended 30 June 2019	2019 \$m	2018 \$m	Change %
Sales Revenue	3,025.1	3,044.6	(0.6)
EBITDA	249.5	131.5	89.7
EBIT	159.0	26.1	>100
Profit / (Loss) after tax	84.0	(2.3)	>100
Basic earnings / (losses) per share (cents)	7.6	(0.2)	>100
Operating cash flow	139.9	136.0	2.9
Net debt	683.5	741.0	(7.8)
Net leverage ratio ¹	2.6x	2.8x	

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

Directors' Report (continued)

Review of Operations

Individually Significant Items

The results for the year ended 30 June 2019 have not been impacted by any individually significant items. The comparative period includes \$88.4 million (after tax) of individually significant items relating to goodwill impairment, contract rationalisation and restructure costs, management redundancies and integration costs attributable to the takeover by Downer EDI Limited ("Downer") and other balance sheet adjustments including the write-off of new Royal Adelaide Hospital work in progress ("WIP").

Statutory Results

Statutory sales revenue decreased from FY18 by \$19.5 million (-0.6%) reflecting the impact of contracts exited in FY18, partially offset by newly mobilised contracts. The comparative period includes a writeback of \$41.0 million of revenue relating to the new Royal Adelaide Hospital contract (included in individually significant items).

EBITDA increased from FY18 by \$118.0 million due to the comparative period being significantly impacted by \$120.1 million of individually significant items recorded as a result of the Downer takeover and contract rationalisation and restructure. Underlying EBITDA is comparable to the prior year despite the significant decline in revenue attributable to the FY18 exit of low margin / loss making contracts and the continued focus on margin improvement.

Depreciation and amortisation expense decreased by \$14.9 million driven by \$10.5 million of individually significant items in the comparative period and a decline in laundry stock amortisation due to the run-off of increased stock purchased in prior years.

Finance costs were in line with the comparative period.

Income tax expense, excluding tax on individually significant items, represents an effective tax rate of 30%.

Operating Segments

Facility Services

Year ended 30 June 2019	2019 \$m	2018 \$m	Change %
Facility Services Sales Revenue	2,796.9	2,842.2	(1.6)
Facility Services EBITDA	220.3	160.4	37.3
Depreciation	(24.9)	(39.3)	36.6
Facility Services EBITA	195.4	121.1	61.4
Facility Services EBITDA Margin	7.9%	5.6%	
Facility Services EBITA Margin	7.0%	4.3%	

Facility Services revenue has declined from FY18 primarily attributable to the impact of the prior year exit of the airport portfolio and the loss of a Government contract during FY19, partially offset by a newly mobilised Education PPP contract and the acquisition of the Envar Group. The comparative period includes a writeback of \$41.0 million of revenue relating to the new Royal Adelaide Hospital contract (included within individually significant items).

Reported earnings exceeded the prior comparative period however, FY18 was significantly impacted by individually significant items. Contract rationalisation costs, restructuring costs and other largely non-cash balance sheet adjustments totalling \$67.6 million (write-off of new Royal Adelaide Hospital WIP and alignment with Downer's accounting policies), impacted FY18 pre-tax earnings.

Directors' Report (continued)

Operating Segments (continued)

Laundries

Year ended 30 June 2019	2019 \$m	2018 \$m	Change %
Laundries Sales Revenue	264.4	271.2	(2.5)
Laundries EBITDA	60.4	10.8	>100
Depreciation (including rental stock)	(42.9)	(43.8)	2.1
Laundries EBITA	17.5	(33.0)	>100
Laundries EBITDA Margin	22.8%	4.0%	
Laundries EBITA Margin	6.6%	(12.2)%	

The Laundries segment experienced marginally lower volumes following the closure of a number of underperforming plants in the prior year. This was partially offset by the contribution from the recently acquired laundry facility in Victoria.

Excluding the impact of \$44.3 million of individually significant items in the prior year, EBITDA was marginally above FY18.

Cash Flow

Year ended 30 June 2019	2019 \$m	2018 \$m	Change %
Operating Cash Flow	139.9	136.0	2.9
Investing Activities	(77.0)	(89.1)	13.6
Free Cash Flow	62.9	46.9	34.1

Operating cash flows increased by \$3.9 million (2.9%) from the prior period, continuing the improvement demonstrated in the prior year. The improvement was driven by further continued focus on cash management and a \$21.6 million reduction in the cash losses on the new Royal Adelaide Hospital contract (\$35.4 million down from \$57.0 million for the year ended 30 June 2018).

Directors' Report (continued)

Balance Sheet

Key Balance Sheet Metrics	2019 \$m	2018 \$m	Change %
Current Assets	566.6	529.1	7.1
Non-Current Assets	1,370.0	1,347.0	0.8
- Goodwill	771.0	744.8	3.5
- PP&E and Other	599.0	602.2	(2.5)
Current Liabilities	602.5	521.1	15.6
Non-Current Liabilities	938.0	930.9	(0.5)
Net Current (Liabilities) / Assets	(35.9)	8.0	>100
Net Assets	396.1	424.1	(6.6)
Net Debt ¹	683.5	741.0	(7.8)

¹ Excludes deferred borrowing costs

Balance sheet movements were significantly impacted by the adoption of AASB 15, at 1 July 2018 resulting in a reduction in net assets of \$104.5 million through retained earnings (Refer Note 3 for further details).

Debt Management and Liquidity

	2019	2018
Net Leverage Ratio ¹	2.6x	2.8x
Interest Cover Ratio ¹	8.1x	7.5x
Weighted Average Committed Debt Facility Maturity	2.2 years	3.2 years

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

Net debt decreased by \$57.5 million from June 2018 attributable to the above mentioned operating cash flow improvement and continued management of capital expenditure.

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

The Group has committed debt facilities of \$1,053.4 million of which \$783.4 million is drawn at 30 June 2019.

Directors' Report (continued)

Reconciliation of Statutory Results to Operating Segments Results

Year ended 30 June 2019	2019 \$m	2018 \$m
Facility Services Revenue	2,796.9	2,842.2
Laundries Revenue	264.4	271.2
Inter-segment Revenue	(36.2)	(68.8)
Statutory Sales Revenue	3,025.1	3,044.6
Facility Services EBITDA	220.3	160.4
Laundries EBITDA	60.4	10.8
Unallocated Corporate Overheads EBITDA	(31.2)	(39.7)
Statutory EBITDA	249.5	131.5
Facility Services Depreciation	(24.9)	(39.3)
Laundries Depreciation	(42.9)	(43.8)
Unallocated Corporate Overheads Depreciation	(6.9)	(6.5)
Statutory Depreciation	(74.7)	(89.6)
Facility Services EBITA	195.4	121.1
Laundries EBITA	17.5	(33.0)
Unallocated Corporate Overheads EBITA	(38.1)	(46.2)
Statutory EBITA	174.8	41.9

Outlook

Spotless' results for the year ended 30 June 2019 were free from any individually significant items, reflective of the integration with Downer and the positioning of the Group for future growth.

Spotless expects to continue to build on its strong market positions in all the sectors in which it operates and continues to win new work in its core markets as well as renew and extend existing contracts.

Directors' Report (continued)

Defined Terms

Spotless' financial statements for the year ended 30 June 2019 have been prepared in accordance with Australian Accounting Standards.

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

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

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

Glossary

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

Significant changes in state of affairs

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

Significant events subsequent to balance date

In September 2017 Spotless commenced a Facilities Management Sub-Contract ("Subcontract") at the New Royal Adelaide Hospital (nRAH). Spotless' subcontract is with Celsus, which has a head contract with the South Australian Government as part of a Public Private Partnership model.

On 21 August 2019, Spotless reached in-principle agreement with the South Australian Government and Celsus in relation to the delivery of services under the Subcontract. The agreement includes;

- settlement of historical abatement claims previously disclosed as a contingent liability by Downer and Spotless;
- a revised KPI and abatement regime designed to better reflect the services provided by Spotless;
- an increase to Spotless' monthly service fee.

The settlement agreement, which is expected to be signed in the first half of the 2020 financial year, will take financial effect from 1 July 2019.

On 25 June 2019, the Company announced that it had formally applied to be removed from the ASX official list pursuant to ASX Listing Rule 17.11 (Delisting). The Delisting was subsequently approved by a special resolution of shareholders on 26 July 2019. With all other conditions imposed by the ASX having been satisfied, trading in the Company's shares will be suspended from 7.00pm on 27 August 2019 and the Company will be removed from the ASX official list on 30 August 2019.

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.

Directors' Report (continued)

Likely developments

Details of developments in the operations of the Group in future financial years and the expected results of those operations are disclosed in the Operating and Financial Review on pages 7 to 11.

Dividends

The Directors have determined not to pay a final dividend for the year ended 30 June 2019.

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

Share options

No share options and rights were granted to senior executives of the Group during the year ended 30 June 2019.

Share issues

The Group did not issue any ordinary shares during the financial year ended 30 June 2019. On 4 July 2017, 2,131,487 ordinary shares were issued as a result of the exercise of rights under the Spotless Executive Incentive Plan. On 13 July 2017, 1,704,432 ordinary shares were issued as a result of the exercise of options under the Spotless Executive Incentive Plan.

Environmental Regulation

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

Indemnification of Officers

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

During the year ended 30 June 2019, 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 2019 or since that date to the date of this report.

Indemnification of auditors

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

Lead Auditor's independence declaration

The lead auditor's independence declaration is included on page 85.

Directors' Report (continued)

Non-audit services

KPMG, the external auditor to the Group, provided non-audit services to the Group during the year ended 30 June 2019. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

KPMG received or are due to receive \$285,000 for the provision of non-audit services to the Group. Amounts paid or payable by the Group for audit and non-audit services are disclosed in Note 27 to the financial report.

Proceedings brought on behalf of Spotless Group Holdings Limited

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

Rounding

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

Directors' Report (continued)

Remuneration Report

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the Remuneration Report for the year ended 30 June 2019.

Year in Review

Key highlights of the financial year include:

- Sales Revenue of \$3,025.1 million.
- EBIT of \$159.0 million, increased from FY18 by \$132.9 million due to the comparative period being significantly impacted by \$130.6 million of individually significant items recorded as a result of the Downer takeover and contract rationalisation and restructure. There were no individually significant items in the current period.
- Profit after tax of \$84.0 million increased from FY18 by \$86.3 million due to the impact of the above mentioned individually significant items (\$88.4 million after tax) on the comparative period comprising goodwill impairment (\$40.0 million), contract rationalisation and restructure costs (\$9.1 million), management redundancies and integration costs (\$9.7 million) and other balance sheet adjustments (\$29.6 million).
- Operating cash flows of \$139.9 million increased by \$3.9 million from the prior year, continuing the improvement demonstrated in FY18.
- Net debt of \$683.5 million decreased by \$57.5 million from FY18 attributable to the above mentioned continued operating cash flow improvement and ongoing management of capital expenditure.
- We have been very pleased with our progress to improve our safety culture and safety performance across the business. We saw improvements in both our LTIFR and TRIFR performance and have been very focused on the delivery of our critical risk strategy. We also achieved good improvements in our environmental performance.
- Our employee engagement survey results have seen a pleasing increase in the engagement of our employees.



John Humphrey,
Chairman of the People and Remuneration Committee

Directors' Report (continued)

Remuneration Report (Audited)

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

Section 1	Key management personnel	Page 16
Section 2	Remuneration governance	Page 17
Section 3	Company performance	Page 17
Section 4	Remuneration principles and strategy	Page 17
Section 5	Executive remuneration	Page 18
Section 6	Executive employment contracts	Page 21
Section 7	Non-Executive Director remuneration	Page 22
Section 8	Remuneration disclosures	Page 23
Section 9	Other statutory disclosures	Page 25

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	Position	
Professor John Humphrey	Chairman	Full Year
	Non-Executive Director	Full Year
Dr. Grant Thorne	Non-Executive Director	Full Year
Michael Ferguson	Non-Executive Director	Full Year
Grant Fenn	Non-Executive Director	Full Year
Simon McKeon AO	Non-Executive Director	Full year
Executive Directors and KMP	Position	
Dana Nelson ¹	Chief Executive Officer and Managing Director	Until 15 October 2018
Peter Tompkins ²	Chief Executive Officer	From 16 October 2018
Chris Storey	Chief Financial Officer	Full Year

¹ Dana Nelson separated as Chief Executive Officer & Managing Director on 15 October 2018

² Peter Tompkins was appointed to the Chief Executive Officer role effective on 16 October 2018

Directors' Report (continued)

2 Remuneration Governance

2.1 Role of the People and Remuneration Committee

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

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

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

Further information on the role of the Committee and meetings held throughout the year are set out in page 5 of the Directors' Report.

2.2 External Advisors and Remuneration Advice

In performing their roles, the Board and the Committee directly commission and receive information and services from independent external advisors on various remuneration related matters.

3 Company Performance

No remuneration recommendations as defined in section 9B of the Corporations Act 2001 were obtained during the financial year ended 30 June 2019.

The table below provides a snapshot of the Group's performance over FY19. Metrics for previous financial years, during which Spotless was listed, are provided for comparison. The link between the Group's performance and LTI outcomes is considered in the table below.

Table 2: Key Performance Indicators for FY19 compared to FY15 - FY18

	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 (%)
FY19	1.62	-	N/A	7.6	249.5	159.0	84.0	139.9	63.3
FY18	1.11	-	N/A	(0.2)	131.5	26.1	(2.3)	136.0	63.4
FY17	1.15	1.35	9.8	(31.6)	(199.2)	(310.9)	(347.4)	190.6	65.0
FY16	1.12	8.5	(44.0)	11.1	311.6	207.8	122.2	141.7	48.8
FY15	2.09	10.0	28.9	13.0	316.4	238.0	142.8	247.0	41.0

4 Remuneration Principles and Strategy

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

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

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

Directors' Report (continued)

5 Executive Remuneration

5.1 Executive Remuneration Framework and Link to Strategy

Remuneration Structure	
Fixed Annual Remuneration (FAR)	"At-risk" remuneration Short term incentive (STI) and Long term incentive (LTI)
Base salary, superannuation and other non-cash benefits.	<p>Awarded for the achievement of performance criteria measured over a one-year period.</p> <p>As a result of the takeover by the Downer Group, issuing shares for the purposes of the incentive scheme is no longer available. On that basis the STI will be delivered in the form of cash.</p> <p>The STI has been expanded to provide a Deferred Short Term Incentive (DSTI) based on the FY19 performance criteria. The deferral is over 2 years. The DSTI plan applies to the CEO. There is no deferral requirements for the CFO Short Term Incentive.</p> <p>The CEO is eligible to participate in the Downer LTI Scheme with an LTI opportunity of 50% of FAR.</p>
Link to Remuneration Strategy	
Attract and retain high calibre executives by providing a market competitive remuneration arrangement.	<p>Focus on driving financial and non-financial Key Performance Indicators in the short term.</p> <p>The extended STI enables focus on long-term growth by ensuring retention.</p> <p>The LTI for the CEO ensures that there is a long term focus on company performance and sustained shareholder returns.</p>
Link to Performance	
<p>FAR is not performance related. It is set with regard to experience, qualifications, responsibility, complexity, and criticality of the role.</p> <p>FAR is benchmarked against Spotless' peer companies. The benchmarking peer group was adjusted in FY17 with regard to Spotless' current market capitalisation, assets, revenue, and other key metrics. The group primarily comprises Industrials, Consumer Discretionary, Consumer Staples and Health Care Equipment & Services sectors companies.</p>	<p>Performance measures for FY19 STI were set across the following areas of performance:</p> <ul style="list-style-type: none"> • Downer Group NPAT • Downer Group FFO (Free Funds for Operation) • Spotless Group EBIT • Free Cash Flow • Safety • People
Link to Company Strategy	
Fixed remuneration provides a market competitive opportunity for driving the day-to-day Spotless business.	<p>The FY19 STI was weighted strongly toward key financial metrics (60%) that were viewed by the Board as critical focus areas.</p> <p>The Group NPAT outcome is reflective of our focus on alignment with the performance of the Downer Group. While we focus on alignment with Downer we also stay focused on the important revenue streams of the business.</p> <p>A focus on cash at both Downer and Spotless ensures that the business is remaining focused on this important metric.</p> <p>The safety measure reflects our continued focus on the safety of our people (both directly and indirectly engaged) and the importance of safety in delivery of services to our customers.</p> <p>The people measure is focussed on improving employee engagement to ensure we remain focused on improving the workplace experience of our people.</p>

Directors' Report (continued)

5 Executive Remuneration (continued)

5.2 Fixed Annual Remuneration

Table 3: KMP Fixed Annual Remuneration

KMP	FAR \$	STI TARGET %
Peter Tompkins CEO	\$1,000,000	56.25%
Chris Storey CFO	\$500,000	50%

5.3 Incentive Outcomes

5.3.1 STI Outcomes

The STI outcomes for the year ended 30 June 2019 are set out below. The STI assessment criteria was based on the financial performance measures (Spotless Group EBIT, Spotless Group Free Cash Flow, Downer Group Financial targets) as well as specific non-financial performance measures of Safety (TRIFR). The Short-Term Incentive Plan also include gateways measures detailed below:









DSTIP gateway




The DSTIP gateway requires that at least 90% of the NPATA target for Spotless Group be achieved.

Zero Harm gateways

The Zero Harm gateway requires that there be no fatality in Spotless Group. The Environmental gateway requires that there be no level 5 or 6 environment incident in Spotless Group.

Table 4: Performance against STI Measures

Measure	Outcome	Explanation
Spotless Group EBIT		Increase in EBIT on FY18. No individually significant items in this period
Spotless Group Free Cash Flow		There was an increase in operating cash flows from the prior year which demonstrates good continuing focus on cash
Downer Group NPAT		Downer Group NPAT threshold met
Downer Group FFO		Downer Group FFO threshold met
Spotless Group Safety – LTIFR		Good progress to reduce LTIFR
Spotless Group Safety – TRIFR		Good progress to reduce TRIFR
Spotless Group Safety – Strategic Plan		Positive progress on our strategy to reduce critical risks
Spotless Group People – Engagement Score		Excellent results in our Employee survey showing significant increase in Employee Passion

Threshold not met  Above Threshold  Maximum achieved 

Directors' Report (continued)

5 Executive Remuneration (continued)

5.3 Incentive Outcomes (continued)

Table 5: STI Vesting Outcomes

KMP	Target STI opportunity	Cash STI awarded in respect of current year (\$)	Deferred STI awarded in respect of current year (\$)	STI achieved as a % of FAR
Dana Nelson CEO	NA	NA	NA	NA
Peter Tompkins CEO	56.25%	\$109,874	\$109,874	21.9%
Chris Storey CFO	50%	\$103,635	-	20.7%

5.3.2 LTI Plan and Outcomes

In 2018, the Board determined that it was inappropriate to grant performance rights under the Spotless LTI plan, which was based on EPS and TSR performance hurdles, due to the low level of free float shares in Spotless and lack of trading liquidity following the takeover by Downer. Accordingly, for 2019 the Board determined it was appropriate that Peter Tompkins participate in the Downer Group Long Term Incentive Plan subject to approval by the Downer Board.

Downer Long-term Incentive Plan

The following table outlines the major features of the Downer 2019 LTI plan as applicable to Peter Tompkins.

Downer LTI Plan	
Purpose of LTI plan	<ul style="list-style-type: none"> Focus performance on drivers of shareholder value over three-year period; Manage risk by countering any tendency to over-emphasise short-term performance to the detriment of longer-term growth and sustainability; and Ensure a part of remuneration costs varies with the Company's longer-term performance.
Maximum value of equity that can be granted	50% of fixed remuneration.
Additional service period after performance period for shares to vest	Performance rights for which the relevant performance vesting condition is satisfied will not vest unless executives remain employed with the Downer Group on 30 June 2022.
Performance rights vest	July 2022.
Form of award and payment	Performance rights.
Performance conditions	<p>There are three performance conditions. Each applies to one-third of the performance rights granted to each executive.</p> <p><i>Relative TSR</i></p> <p>The relative TSR performance condition is based on the Downer's TSR performance relative to the TSR of companies comprising the ASX 100 index, excluding financial services companies, at the start of the performance period, measured over the three years to 30 June 2021.</p> <p><i>EPS growth</i></p> <p>The EPS growth performance condition is based on the Company's compound annual EPS growth over the three years to 30 June 2021.</p> <p><i>Scorecard</i></p> <p>The Scorecard performance condition is based on the Group's NPATA and FFO for each of the three years to 30 June 2021. These measures are considered to be key drivers of shareholder value. Accordingly, they have been included in the LTI plan to reward sustainable financial performance.</p>

Directors' Report (continued)

5.4 General Incentive Plan Governance

Table 6: Additional Terms of STI

Clawback	If the Board becomes aware of a material misstatement in the Group's financial statements relating to a Vesting Period or some other event has occurred during the Vesting Period which, as a result, means the rights should not have vested, the Board may elect to claw back the benefit of that vesting.
Cessation of employment	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 2019 were as follows:

KMP	Notice period
Peter Tompkins	6 months
Chris Storey	3 months

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

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

6.1 Resignation of the Chief Executive Officer & Managing Director

Dana Nelson ceased employment with the Group effective 15 October 2018. Upon termination of her employment, Dana Nelson received the following, in accordance with her employment agreement:

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

Dana Nelson also received the following incentive payments in relation to FY18:

- Deferred incentive payments.

Directors' Report (continued)

7 Non-Executive Director Remuneration

7.1 Fees

Fees and payments to Non-Executive Directors reflect the demands and responsibilities on 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 \$2.0 million 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 2019 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 FY18.

Table 7: Annual Director's Fees

Director's fees ³	Fees per annum (\$)
Chairman	270,000
Non-Executive Director	164,000
Additional Committee Fees	
Chairman of the Audit, Business Risk and Compliance Committee	Nil
Chairman of the People and Remuneration Committee	Nil
Member of Committee	Nil

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

³ Neither Grant Fenn nor Michael Ferguson receive Director's fees in connection with their role on the Spotless Board.

Directors' Report (continued)

8 Remuneration Disclosures

8.1 Remuneration of KMP

Table 8: Executive KMP Statutory Remuneration – Accounting

	Financial Year	Short Term Benefits \$					Long Term Benefits \$	Post Employment \$		Share Based Payments \$	Total \$	% of Rem
		Salary	Cash bonus payable in respect of current year	Deferred bonus payable	Other	Annual Leave	Long Service Leave	Superannuation	Termination Payments	Shares / Share Options		Performance Based
Executive Directors												
P Tompkins ¹	2019	642,515	109,874	109,874	-	53,049	9,481	14,571	-	58,893	998,257	28%
	2018	-	-	-	-	-	-	-	-	-	-	0%
D Nelson ²	2019	288,775	-	-	-	24,114	5,735	10,266	733,011	-	1,061,901	0%
	2018	1,031,763	506,237	210,932	-	35,578	61,441	20,049	-	-	1,866,000	38%
M Sheppard ³	2019	-	-	-	-	-	-	-	-	-	-	0%
	2018	213,325	-	-	-	31,933	882	5,012	1,384,767	-	1,635,919	0%
Other KMP												
C Storey ⁴	2019	442,586	103,635	-	-	36,883	7,990	20,531	-	-	611,625	17%
	2018	119,988	58,483	-	-	9,965	1,976	5,012	-	-	195,424	30%
P Mahoney ⁵	2019	-	-	-	-	-	-	-	-	-	-	0%
	2018	279,970	212,917	-	-	21,598	1,997	10,024	-	-	526,506	40%
N Chadwick ⁶	2019	-	-	-	-	-	-	-	-	-	-	0%
	2018	121,659	-	-	-	25,174	584	5,012	417,459	-	569,888	0%
Total	2019	1,373,876	213,509	109,874	-	114,046	23,206	45,368	733,011	58,893	2,671,783	14%
	2018	1,766,705	777,637	210,932	-	124,248	66,880	45,109	1,802,226	-	4,793,737	21%

1 P Tompkins was appointed Chief Executive Officer on 16 October 2018

2 D Nelson ceased to be KMP on 15 October 2018

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

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

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

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

Table 9: Executive KMP Remuneration – Non-Statutory

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

	Financial Year	Short Term Benefits \$				Post Employment \$		Share Based Payments \$	Total \$	% of Rem
		Salary	Bonus ⁷	Other	Annual Leave	Superannuation	Termination Payments	Shares / Share Options		Performance Based
Executive Directors										
P Tompkins ¹	2019	635,291	-	-	60,274	14,571	-	-	710,136	0%
	2018	-	-	-	-	-	-	-	-	0%
D Nelson ²	2019	246,461	506,237	307,222	66,428	10,266	733,011	-	1,869,625	44%
	2018	1,031,763	203,250	125,000	35,578	20,049	-	-	1,415,640	23%
M Sheppard ³	2019	-	-	-	-	-	-	-	-	0%
	2018	213,325	355,680	-	94,680	5,012	1,384,767	-	2,053,464	17%
Other KMP										
C Storey ⁴	2019	459,184	58,483	-	20,285	20,531	-	-	558,483	10%
	2018	119,988	-	-	9,965	5,012	-	-	134,965	0%
P Mahoney ⁵	2019	-	-	-	-	-	-	-	-	0%
	2018	279,970	-	-	21,598	10,024	-	-	311,592	0%
N Chadwick ⁶	2019	-	-	-	-	-	-	-	-	0%
	2018	121,659	203,250	-	5,097	5,012	417,459	-	752,477	27%
Total	2019	1,340,936	564,720	307,222	146,987	45,368	733,011	-	3,138,244	28%
	2018	1,766,705	762,180	125,000	166,918	45,109	1,802,226	-	4,668,138	19%

1 P Tompkins was appointed Chief Executive Officer on 16 October 2018

2 D Nelson ceased to be KMP on 15 October 2018

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

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

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

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

7 2019 amounts reflect the cash settlement of the 2018 STI outcomes. These amounts were paid during financial year 2019.

Directors' Report (continued)

8 Remuneration Disclosures (continued)

8.1 Remuneration of KMP (continued)

Table 10: Non Executive Director Statutory Remuneration

	Financial Year	Short Term Benefits \$				Post Employment \$		Share Based Payments \$		Total \$	% of Rem
		Salary	Bonus	Non-Monetary	Other Payments	Superannuation	Termination Payments	Share Options	Shares		Performance Based
Non-Executive Directors											
J Humphrey ¹	2019	279,469	-	-	-	20,531	-	-	-	300,000	0%
	2018	383,008	-	-	-	20,049	-	-	-	403,057	0%
S McKeon ¹⁰	2019	157,382	-	-	-	14,951	-	-	-	172,333	0%
	2018	191,728	-	-	48,762	18,937	-	-	-	259,427	0%
G Thorne ²	2019	152,816	-	-	-	14,517	-	-	-	167,333	0%
	2018	159,052	-	-	-	15,110	-	-	-	174,162	0%
M Ferguson ³	2019	-	-	-	-	-	-	-	-	-	0%
	2018	-	-	-	-	-	-	-	-	-	0%
G Fenn ⁴	2019	-	-	-	-	-	-	-	-	-	0%
	2018	-	-	-	-	-	-	-	-	-	0%
G Hounsell ⁵	2019	-	-	-	-	-	-	-	-	-	0%
	2018	71,659	-	-	-	5,012	-	-	-	76,671	0%
D Grady ⁶	2019	-	-	-	-	-	-	-	-	-	0%
	2018	8,871	-	-	-	1,475	-	-	-	10,346	0%
N Sherry ⁷	2019	-	-	-	-	-	-	-	-	-	0%
	2018	8,002	-	-	-	1,330	-	-	-	9,332	0%
J Coates ⁸	2019	-	-	-	-	-	-	-	-	-	0%
	2018	7,567	-	-	-	1,258	-	-	-	8,825	0%
P Garling ⁹	2019	-	-	-	-	-	-	-	-	-	0%
	2018	61,697	-	-	-	5,861	-	-	-	67,558	0%
Total	2019	589,667	-	-	-	49,999	-	-	-	639,666	0%
	2018	891,584	-	-	48,762	69,032	-	-	-	1,009,378	0%

1 J Humphrey commenced as a KMP on 19 July 2017

2 G Thorne commenced as a KMP on 19 July 2017

3 M Ferguson commenced as a KMP on 19 July 2017

4 G Fenn commenced as a KMP on 1 December 2017

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

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

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

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

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

10 2018 other payment reflects recognition of leadership on the Board sub-committee relating to the Downer takeover in 2017

Directors' Report (continued)

9 Other Statutory Disclosures

9.1 Shareholdings of KMP

Table 11: KMP Shareholdings

	Shares at beginning of the year	Granted as remuneration	On exercise of rights or options	Net other changes	Shares held at the end of the year
Non-Executive Directors					
S McKeon	800,000	-	-	-	800,000
Total	800,000	-	-	-	800,000

9.2 Other Transactions and Balances with KMP and their Related Parties

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

Directors' Interests in Contracts

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

On behalf of the Board of Directors:



J Humphrey
Chairman
Melbourne, 22 August 2019



P Tompkins
Chief Executive Officer
Melbourne, 22 August 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019

		2019	2018
		\$m	\$m
Continuing Operations	Note		
Revenue	5	3,025.1	3,044.6
		3,025.1	3,044.6
Direct employee expenses		(1,080.4)	(1,091.4)
Subcontractor expenses		(991.0)	(1,033.9)
Cost of goods used		(483.7)	(488.3)
Occupancy costs		(26.3)	(24.3)
Catering rights		(43.9)	(50.2)
Other expenses		(150.3)	(225.0)
Profit before depreciation, amortisation, finance costs and income tax (EBITDA)		249.5	131.5
Depreciation and amortisation expense	6(a)	(90.5)	(105.4)
Profit before finance costs and income tax (EBIT)		159.0	26.1
Finance income	5	0.8	0.5
Finance expense	6(b)	(40.0)	(43.9)
Profit / (Loss) before income tax		119.8	(17.3)
Income tax (expense) / benefit	9(a)	(35.8)	15.0
Profit / (Loss) for the year after tax		84.0	(2.3)
Other Comprehensive Income			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Foreign currency translation differences for foreign operations		(4.2)	4.2
Effective portion of changes in fair value of cash flow hedges		(4.7)	2.0
Income tax on effective portion of changes in fair value of cash flow hedges		1.4	(0.6)
Other comprehensive (loss) / income for the year, net of income tax		(7.5)	5.6
Total comprehensive income for the year		76.5	3.3
Total comprehensive income attributable to equity holders of the parent entity		76.5	3.3
Profit / (Loss) attributable to equity holders of the parent entity		84.0	(2.3)
Earnings per share		cents	cents
Basic earnings / (losses) per share	8	7.6	(0.2)
Diluted earnings / (losses) per share	8	7.6	(0.2)

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

Consolidated Statement of Financial Position as at 30 June 2019

		2019	2018
	Note	\$m	\$m
Current assets			
Cash and cash equivalents	13(a)	109.9	91.2
Trade receivables and contract assets	10	416.0	395.1
Inventories		29.5	29.4
Prepayments		11.1	13.3
Other		0.1	0.1
Total current assets		566.6	529.1
Non-current assets			
Investments accounted for using the equity method		1.6	1.5
Trade receivables and contract assets	10	76.3	89.8
Property, plant and equipment	16	270.0	269.3
Goodwill	22	771.0	744.8
Intangible assets	17	108.1	122.6
Deferred tax assets	9(c)	126.7	103.5
Other	18	16.3	15.5
Total non-current assets		1,370.0	1,347.0
Total assets		1,936.6	1,876.1
Current liabilities			
Trade payables and contract liabilities	11	461.3	407.2
Borrowings	14(a)	2.7	3.6
Current tax liabilities		11.4	4.5
Provisions	12	124.0	105.5
Derivatives at fair value	14(a)	3.1	0.3
Total current liabilities		602.5	521.1
Non-current liabilities			
Borrowings	14(a)	787.1	823.0
Deferred tax liabilities	9(d)	48.4	47.8
Provisions	12	80.6	59.0
Derivatives at fair value	14(a)	1.8	0.1
Other		20.1	1.0
Total non-current liabilities		938.0	930.9
Total liabilities		1,540.5	1,452.0
Net assets		396.1	424.1
Equity			
Issued capital	15	993.8	993.8
Reserves		1.4	8.9
Accumulated losses		(599.1)	(578.6)
Total equity		396.1	424.1

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

Consolidated Statement of Changes in Equity for the year ended 30 June 2019

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 2017	993.8	(7.8)	(1.6)	(0.6)	13.3	(576.3)	420.8
Loss for the year	-	-	-	-	-	(2.3)	(2.3)
<i>Other comprehensive income</i>							
Currency translation differences	-	4.2	-	-	-	-	4.2
Movement in cash flow hedges	-	-	2.0	-	-	-	2.0
Tax effect of movements	-	-	(0.6)	-	-	-	(0.6)
Total other comprehensive income	-	4.2	1.4	-	-	-	5.6
Total comprehensive income / (loss)	-	4.2	1.4	-	-	(2.3)	3.3
At 30 June 2018	993.8	(3.6)	(0.2)	(0.6)	13.3	(578.6)	424.1
At 1 July 2018	993.8	(3.6)	(0.2)	(0.6)	13.3	(578.6)	424.1
Effect of AASB 15	-	-	-	-	-	(104.5)	(104.5)
Restated 1 July 2018	993.8	(3.6)	(0.2)	(0.6)	13.3	(683.1)	319.6
Profit for the year	-	-	-	-	-	84.0	84.0
<i>Other comprehensive income</i>							
Currency translation differences	-	(4.2)	-	-	-	-	(4.2)
Movement in cash flow hedges	-	-	(4.7)	-	-	-	(4.7)
Tax effect of movements	-	-	1.4	-	-	-	1.4
Total other comprehensive loss	-	(4.2)	(3.3)	-	-	-	(7.5)
Total comprehensive income / (loss)	-	(4.2)	(3.3)	-	-	84.0	76.5
At 30 June 2019 (i)	993.8	(7.8)	(3.5)	(0.6)	13.3	(599.1)	396.1

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

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

(i) Total number of fully paid ordinary shares on issue at 30 June 2019 was 1,102,239,882 (2018: 1,102,239,882).

Consolidated Cash Flow Statement for the year ended 30 June 2019

		Inflows/(Outflows)	
	Note	2019 \$m	2018 \$m
Cash flows from operating activities			
Receipts from customers		3,279.4	3,373.7
Payments to suppliers and employees		(3,104.8)	(3,198.3)
Interest received		0.8	0.5
Interest and other costs of finance paid		(31.3)	(36.3)
Income tax paid		(4.2)	(3.6)
Net cash provided by operating activities	13(b)	139.9	136.0
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		4.4	4.7
Payment for property, plant, equipment and deferred fulfillment costs		(78.4)	(77.8)
Payment for acquisition of businesses, net of cash acquired	21	(3.3)	(20.0)
Net recovery of cash paid for acquisition of businesses		1.7	-
Proceeds from the sale of assets		-	4.5
Payment for intangible assets		(1.4)	(0.5)
Net cash used in investing activities		(77.0)	(89.1)
Cash flows from financing activities			
Proceeds from borrowings		150.0	1,073.5
Repayment of borrowings		(190.0)	(1,081.2)
Payment of finance lease liabilities		(4.6)	(8.2)
Borrowing costs on re-financing		-	(5.6)
Net cash used in financing activities		(44.6)	(21.5)
Net increase in cash and cash equivalents		18.3	25.4
Cash and cash equivalents at the beginning of the year		91.2	66.0
Effects of exchange rate changes on the balance of cash held in foreign currencies		0.4	(0.2)
Cash and cash equivalents at the end of the year	13(a)	109.9	91.2

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 2019

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. Individually Significant Items
- 8. Earnings per Share
- 9. Income Tax

Working Capital

- 10. Trade Receivables and Contract Assets
- 11. Current Trade Payables and Contract Liabilities
- 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 2019

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 22 August 2019.

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

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

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

Critical Accounting Estimates

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

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

Accounting estimates and assumptions

Note

Long-term contract revenue recognition	5	Revenue
Taxation	9	Income Tax
Environmental provisions	12	Provisions
Property make-good provisions	12	Provisions
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 2019

3. Summary of Significant Accounting Policies

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

(a) Basis of Consolidation

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

Subsidiaries

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

Joint ventures

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

(b) Foreign Currency

The presentation currency of the Group is Australian Dollars.

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

Foreign currency item	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 item	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 2019

3. Summary of Significant Accounting Policies (continued)

(c) Goods and Services Tax

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

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

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

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

(d) Borrowing Costs

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

(e) New and Amended Accounting Standards Adopted by the Group

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

The Group has adopted AASB 15 'Revenue from Contracts with Customers' from 1 July 2018. Details of the new requirements of AASB 15 as well as their impact on the Group's consolidated financial statements are described below.

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It has replaced AASB 118 'Revenue', AASB 111 'Construction Contracts' and related interpretations. The core principle of AASB 15 is that an entity shall recognise revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred rather than on transfer of risks and rewards.

Impact on Application

The Group has adopted AASB 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2018). Accordingly, the information presented for the period ended 30 June 2018 has not been restated and it is presented, as previously reported, under AASB 118, AASB 111 and related interpretations.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

3. Summary of Significant Accounting Policies (continued)

(e) New and Amended Accounting Standards Adopted by the Group (continued)

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

The following table summarises the Group impact (net of tax) of transition to AASB 15 recognised on retained earnings on 1 July 2018.

Impact on the opening balance of the Consolidated Statement of Financial Position

\$m	As reported 30 June 2018	AASB 15 Transition Adjustments	Opening Balance 1 July 2018
Trade receivables and contract assets	395.1	(14.6)	380.5
Total current assets	529.1	(14.6)	514.5
Trade receivables and contract assets	89.8	(49.4)	40.4
Deferred tax assets	103.5	44.7	148.2
Total non-current assets	1,347.0	(4.7)	1,342.3
Total assets	1,876.1	(19.3)	1,856.8
Provisions	(105.5)	(34.8)	(140.3)
Total current liabilities	(521.1)	(34.8)	(555.9)
Provisions	(59.0)	(50.4)	(109.4)
Total non-current liabilities	(930.9)	(50.4)	(981.3)
Total liabilities	(1,452.0)	(85.2)	(1,537.2)
Net assets	424.1	(104.5)	319.6
Retained earnings	(578.6)	(104.5)	(683.1)
Total equity	424.1	(104.5)	319.6

Below is a summary of the impact on transition to AASB 15 on the Group's retained earnings.

	Impact on transition (net of tax) \$m
Contract claims and variations - now referred to as contract modifications	(96.4)
Contract costs (Tender Costs)	(0.5)
Performance Obligations and contract duration	(7.6)
Total	(104.5)

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

3. Summary of Significant Accounting Policies (continued)

(e) New and Amended Accounting Standards Adopted by the Group (continued)

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

On adoption, the key impacts on transition were as a result of the following changes:

Contract modifications

Revenue was previously recognised when it was probable that work performed would result in revenue whereas under AASB 15, revenue is recognised when contract modifications are enforceable and to the extent that it is highly probable that a significant reversal of revenue will not occur.

In making this assessment, the Group considers a number of factors including nature of the claim, formal or informal acceptance by the customer of the validity of the claim, stage of negotiations, legal opinion on the enforceability of the claim under the contract, or the historical outcome of similar claims to determine whether the "enforceable" and "highly probable" threshold have been met.

As a result of the change to a higher threshold of approval for claims or variations and the "highly probable" threshold for the estimation of the amount to be recognised as revenue, a \$96.4 million after tax impact on transition was recognised in retained earnings as at 1 July 2018.

Contract costs

Under AASB 111 'Construction Contracts', costs incurred during the tender process were capitalised within contract debtors when it was deemed probable the contract will be won. Under the new standard, costs incurred during the tender/bid process will be expensed, unless they are incremental to obtaining the contract and the Group expects to recover them or they are explicitly chargeable to the customer, regardless of whether the contract is obtained. As a result, a \$0.5 million after tax impact on transition was recognised in retained earnings as at 1 July 2018.

Performance obligations and contract duration

AASB 15 requires a more granular approach to identify the different revenue streams (i.e. performance obligations) in a contract by identifying the different activities that are being undertaken and then aggregating only those where the different activities are significantly integrated or highly interdependent. As a result of the change, additional performance obligations were identified for some contracts which resulted in an adjustment of \$7.6 million after tax to retained earnings as at 1 July 2018.

Based on the contracted terms and the way in which the Group operates its construction and services contracts, revenue is predominantly being derived from projects containing one performance obligation. Construction and services revenue will continue to be recognised over time, however, AASB 15 provides new requirements for recognition of variable consideration (e.g. incentives and liquidated damages), while for claims and variations, once enforceability has been determined, they need to be accounted for as a contract modification which all impart a higher threshold of probability for recognition.

Tax

Adjustments under the new standards are subject to tax effect accounting and therefore the net deferred tax position has been impacted.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

3. Summary of Significant Accounting Policies (continued)

(e) New and Amended Accounting Standards Adopted by the Group (continued)

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

Impact on the Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss and Other Comprehensive Income

The following tables summarise the impact of adoption of AASB 15 on Group's Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss and Other Comprehensive Income for the current period in comparison to the results that would have been reported if AASB 15 had not been applied.

\$m 30 June 2019	As reported	Adjustments	Without adoption of AASB 15
Trade receivables and contract assets	416.0	15.1	431.1
Total current assets	566.6	15.1	581.7
Trade receivables and contract assets	76.3	89.6	165.9
Deferred tax assets	126.7	(44.9)	81.8
Total non-current assets	1,370.0	44.7	1,414.7
Total assets	1,936.6	59.8	1,996.4
Provisions	(124.0)	16.7	(107.3)
Total current liabilities	(602.5)	16.7	(585.8)
Provisions	(80.6)	28.3	(52.3)
Total non-current liabilities	(938.0)	28.3	(909.7)
Total liabilities	(1,540.5)	45.0	(1,495.5)
Net assets	396.1	104.8	500.9
\$m 30 June 2019	As reported	Adjustments	Without adoption of AASB 15
Revenue from ordinary activities	3,025.1	0.5	3,025.6
Total expenses	(2,866.1)	-	(2,866.1)
Earnings before finance costs and income tax	159.0	0.5	159.5
Net finance costs	(39.2)	-	(39.2)
Profit before income tax	119.8	0.5	120.3
Income tax expense	(35.8)	(0.2)	(36.0)
Profit after income tax	84.0	0.3	84.3
Net other comprehensive loss	(7.5)	-	(7.5)
Total comprehensive income for the year, net of tax	76.5	0.3	76.8

There has been no material impact on the consolidated statement of cash flow on transition to AASB 15.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

3. Summary of Significant Accounting Policies (continued)

(f) Accounting Policies Applied from 1 July 2018

Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements for the year ended 30 June 2018. The new policies have also been reflected in the relevant notes to the financial statements.

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

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below.

Rendering of services

Services revenue is primarily generated from maintenance and other services supplied to infrastructure assets and facilities across different sectors as well as from catering and laundry services. Typically, under the performance obligations of service contracts, the customer consumes and receives the benefit of the service as it is provided. As such, service revenue is recognised over time as the services are provided.

The new standard provides a higher threshold for recognition of variations, claims and incentives which only allows revenue from variations and claims to be recognised to the extent they are approved or enforceable under the contract. The amount of revenue is then recognised to the extent it is highly probable that a significant reversal of revenue will not occur.

Construction revenue

The contractual terms and the way in which the Group operates its construction contracts is predominantly derived from projects containing one performance obligation. Under these performance obligations, customers simultaneously receive and consume the benefits as the Group performs. Therefore contracted revenue is recognised over time based on stage of completion of contract.

As with services revenue the new standard provides a higher threshold for recognition of variations, claims and incentives such that they are only recognised to the extent that they are approved or enforceable under the contract. The amount of revenue is then recognised to the extent that it is highly probable that a significant reversal of revenue will not occur.

Sale of goods

Revenue is recognised when the customer obtains control of goods and services.

Other revenue

Other revenue primarily includes rental income and government grants relating to research and development incentives received by the Group. The Group elects to present the net amount in 'Other revenue' as allowed under AASB 120 'Accounting for Government grants and disclosure of Government assistance'.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

3. Summary of Significant Accounting Policies (continued)

(f) Accounting Policies Applied from 1 July 2018 (continued)

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

The Group has identified the following areas as key differences in adopting AASB 15.

Description	
Contract modifications	<p>Revenue in relation to variations, such as a change in the scope of the contract, will only be included in the transaction price, when it is approved by the parties to the contract, the variation is enforceable, and the amount becomes highly probable. Variations will be recognised when client instruction has been received in line with customary business practice for the customer.</p> <p>Revenue in relation to claims, where the Group has an approved enforceable right to payment, is only included in the transaction price when the amount claimable becomes highly probable.</p> <p>In making this assessment, the Group considers a number of factors including nature of the claim, formal or informal acceptance by the customer of the validity of the claim, stage of negotiations, or the historical outcome of similar claims to determine whether the "enforceable" and "highly probable" threshold has been met.</p>
Contract costs (Tender costs)	<p>Costs incurred during the tender/ bid process will be expensed unless they are incremental to obtaining the contract and the Group expects to recover those costs or where they are explicitly chargeable to the customer regardless of whether the contract is obtained. The Group applies the practical expedient available under AASB 15 and does not capitalise incremental costs of obtaining contracts if the amortisation period is one year or less.</p>
Performance obligations and contract duration	<p>Revenue is allocated to each performance obligation and recognised as the performance obligation is satisfied which may be at a point in time or over time.</p> <p>AASB 15 requires a more granular approach to identify the different revenue streams (i.e. performance obligations) in a contract by identifying the different activities that are being undertaken and then aggregating only those where the different activities are significantly integrated or highly interdependent. Revenue will continue to be recognised, on certain contracts over time, as a single performance obligation when the services are part of a series of distinct goods and services that are substantially integrated with the same pattern of transfer.</p> <p>AASB 15 provides guidance in respect of the term over which revenue may be recognised and is limited to the period for which the parties have enforceable rights and obligations. When the customer can terminate a contract for convenience (without a substantive penalty), the contract term and related revenue is limited to the termination period.</p> <p>The Group has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less.</p>
Measure of progress	<p>The Group will measure revenue using the measure of progress that best reflects the Group's performance in satisfying the performance obligation within the contracts over time. The different methods of measuring progress include an input method (e.g. costs incurred) or an output method (e.g. milestones reached). The same method of measuring progress will be consistently applied to similar performance obligations.</p>

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

3. Summary of Significant Accounting Policies (continued)

(f) Accounting Policies Applied from 1 July 2018 (continued)

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

Description	
Variable consideration	<p>Variable consideration that is contingent on the Group's performance, including key performance payments, liquidated damages and abatements that offset revenue under the contract, is recognised to the extent that it is highly probable that a reversal of that revenue will not occur.</p> <p>In addition, where the identified revenue stream is determined to be a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (for example maintenance services); variable consideration is recognised in the period(s) in which the series of distinct goods or services subject to the variable consideration are completed.</p>
Loss-making contracts	Loss-making construction contracts are now recognised under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' as onerous contracts.

(ii) AASB 9 Financial instruments'

This standard replaces AASB 139 'Financial Instruments: Recognition and Measurement'. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment of financial assets, and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139.

Classification and measurement – financial assets and liabilities

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

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss (FVTPL). The standard eliminates the existing AASB139 categories of held to maturity, loans and receivables and available for sale, whilst the existing requirements for the classification of financial liabilities in AASB 139 is retained. The adoption of AASB 9 has not had a significant effect on the Group's accounting policies relating to financial assets.

Impairment

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

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

3. Summary of Significant Accounting Policies (continued)

(f) Accounting Policies Applied from 1 July 2018 (continued)

(ii) AASB 9 'Financial instruments' (continued)

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

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

The Group has applied the simplified approach to recognise lifetime expected credit losses for trade receivables, and finance lease receivables as permitted by AASB 9. The Group notes that the impact on transition from application of the expected credit loss model of AASB 9 is not material.

Hedge accounting

AASB 9 aligns the accounting for hedging instruments more closely with the Group's risk management objectives and strategy and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Group has elected to adopt the general hedge accounting model in AASB 9. AASB 9 introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

(g) New Accounting Standards and Interpretations not yet adopted

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Group in this Financial Report.

Title	Effective for annual reporting periods beginning on or after
AASB 16 'Leases'	1 January 2019

(i) AASB 16 'Leases'

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

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

The Group plans to adopt AASB 16 using the modified retrospective method, with the cumulative effect of initially applying this standard to be recognised as an adjustment to opening retained earnings at 1 July 2019, with no restatement of comparatives. As a result, the Group will apply the requirements of AASB 16 for the first time in the 2020 half-year Financial Report.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

3. Summary of Significant Accounting Policies (continued)

(g) New Accounting Standards and Interpretations not yet adopted (continued)

(i) AASB 16 'Leases' (continued)

Based on the current assessment, upon adoption of AASB 16, total assets will increase by \$100.0 million to \$150.0 million and total liabilities will increase by \$150.0 million to \$200.0 million, due to the recognition of a "Right of Use Asset" and a "Lease Liability"; grossing up the assets and liabilities in the Consolidated Statement of Financial Position as at 1 July 2019.

The adjustment for AASB 16 will have a positive impact on EBITDA as the costs of operating leases (previously recognised as part of EBIT expensed over the term of the lease) will now be excluded from EBITDA as lease costs will be recognised separately in depreciation (for the right of use assets) while interest on lease liabilities will be disclosed as part of financing costs.

(ii) Other new or amended standards

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions;
- AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments; and
- AASB 2017-7 Amendments to Australian Accounting Standards – Long term interest in Associates and JVs.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

Group Performance

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

4. Operating Segments

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

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

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

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

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

\$m 2019	Facility Services	Laundries	Corporate / eliminations	Group
Sales Revenue				
Service revenue	2,434.2	264.4	(28.8)	2,669.8
Construction revenue	181.0	-	(7.4)	173.6
Sale of goods	181.7	-	-	181.7
Total revenue from contracts with customers	2,796.9	264.4	(36.2)	3,025.1
EBITDA	220.3	60.4	(31.2)	249.5
Depreciation	(24.9)	(42.9)	(6.9)	(74.7)
Amortisation	-	-	(15.8)	(15.8)
EBIT	195.4	17.5	(53.9)	159.0
Net finance costs	-	-	(39.2)	(39.2)
Profit / (Loss) before income tax	195.4	17.5	(93.1)	119.8
Income tax expense	-	-	(35.8)	(35.8)
Profit / (Loss) for the year	195.4	17.5	(128.9)	84.0
Segment assets	1,316.7	294.7	325.2	1,936.6
Segment liabilities	488.8	100.9	950.8	1,540.5

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

4. Operating Segments (continued)

\$m 2018	Facility Services	Laundries	Corporate / eliminations	Group
Sales Revenue				
Service revenue	2,459.4	271.2	(59.8)	2,670.8
Construction revenue	180.1	-	(9.0)	171.1
Sale of goods	202.7	-	-	202.7
Total revenue from contracts with customers	2,842.2	271.2	(68.8)	3,044.6
EBITDA	160.4	10.8	(39.7)	131.5
Depreciation	(39.3)	(43.8)	(6.5)	(89.6)
Amortisation	-	-	(15.8)	(15.8)
EBIT	121.1	(33.0)	(62.0)	26.1
Net finance costs	-	-	(43.4)	(43.4)
Profit / (Loss) before income tax	121.1	(33.0)	(105.4)	(17.3)
Income tax benefit	-	-	15.0	15.0
Profit / (Loss) for the year	121.1	(33.0)	(90.4)	(2.3)
Segment assets	1,284.8	286.0	305.3	1,876.1
Segment liabilities	406.1	114.2	931.7	1,452.0

Revenue from one of the Group's customers was approximately 12% (2018: 11%) of the total Group revenue during the year ended 30 June 2019. This customer operated within the Facility Services segment. No other single customer contributed 10% or more to the Group's revenue for both 2019 and 2018.

	2019	2018
	\$m	\$m
Non-current assets		
Australia	1,070.2	1,057.1
New Zealand	78.9	79.6
	1,149.1	1,136.7

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

5. Revenue

Disaggregation of revenue from contracts with customers

In the following tables, revenue from contracts with customers is disaggregated by primary geographical market.

Revenue by geographical locations

\$m	Facility Services	Laundries	Corporate / eliminations	Group
Year ended 30 June 2019				
Sales Revenue				
Australia	2,473.9	210.9	(21.8)	2,663.0
New Zealand	323.0	53.5	(14.4)	362.1
Total revenue and other income	2,796.9	264.4	(36.2)	3,025.1
Year ended 30 June 2018				
Sales Revenue				
Australia	2,499.5	218.7	(61.8)	2,656.4
New Zealand	342.7	52.5	(7.0)	388.2
Total revenue and other income	2,842.2	271.2	(68.8)	3,044.6

Interest income

Third party entities

	2019 \$m	2018 \$m
	0.8	0.5
	0.8	0.5

(a) Accounting Policies

Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Rendering of services

Services revenue is primarily generated from maintenance and other services supplied to infrastructure assets and facilities across different sectors as well as from catering and laundry services. Typically, under the performance obligations of service contracts, the customer consumes and receives the benefit of the service as it is provided. As such, service revenue is recognised over time as the services are provided.

The new standard provides a higher threshold for recognition of variations, claims and incentives which only allows revenue from variations and claims to be recognised to the extent they are approved or enforceable under the contract. The amount of revenue is then recognised to the extent it is highly probable that a significant reversal of revenue will not occur.

Construction revenue

The contractual terms and the way in which the Group operates its construction contracts is predominantly derived from projects containing one performance obligation. Under these performance obligations, customers simultaneously receive and consume the benefits as the Group performs. Therefore contracted revenue is recognised over time based on stage of completion of contract.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

5. Revenue (continued)

(a) Accounting Policies (continued)

As with services revenue, the new standard provides a higher threshold for recognition of variations, claims and incentives such that they are only recognised to the extent that they are approved or enforceable under the contract. The amount of revenue is then recognised to the extent that it is highly probable that a significant reversal of revenue will not occur.

Sale of goods

Revenue is recognised when the customer obtains control of goods and services.

Other revenue

Other revenue primarily includes rental income and government grants relating to research and development incentives received by the Group. The Group elects to present the net amount in 'Other revenue' as allowed under AASB 120 'Accounting for Government grants and disclosure of Government assistance'.

(b) Accounting Policies applicable to comparative period (30 June 2018)

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.

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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

5. Revenue (continued)

(b) Accounting Policies applicable to comparative period (30 June 2018) (continued)

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

Sale of goods

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

Interest income

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

Dividend income

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

(c) 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. Under AASB 15 the Group recognises revenue from both planned maintenance services and life cycle maintenance 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 2019

6. Expenses

(a) Depreciation and amortisation

	2019 \$m	2018 \$m
Property, plant and equipment (i)	34.5	38.4
Laundries rental stock (i)	32.6	33.4
Deferred fulfillment costs	7.6	17.8
Amortisation of identifiable intangible assets (ii)	15.8	15.8
Total depreciation and amortisation (v)	90.5	105.4

(b) Finance expenses

Interest charged from third party entities	33.5	36.8
Other borrowing costs	2.1	3.6
Unwinding of discount on provisions (iii) (v)	4.4	3.5
Total finance expenses	40.0	43.9

(c) Other items included in the profit and loss

Contract rationalisation and restructuring costs and other balance sheet adjustments (v)	-	70.7
Goodwill impairment (v)	-	40.0
Management redundancies and integration (v)	-	9.4
Re-measurement of provisions	(16.4)	(6.2)
Operating lease expense (iv)	42.3	37.6
Employee expenses - superannuation defined contribution plans	77.2	77.3

(i) Refer to Accounting Policy at Note 16

(iii) Refer to Accounting Policy at Note 12

(v) Includes items disclosed in Note 7

(ii) Refer to Accounting Policy at Note 17

(iv) Refer to Accounting Policy at Note 19

(d) Accounting Policies

Deferred fulfillment costs

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

Defined contribution plans

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

7. Individually Significant Items

The Group did not incur any individually significant items for the year ended 30 June 2019.

The following material items are included within the comparative period (30 June 2018) of the Consolidated Statement of Profit or Loss and Other Comprehensive Income, and are relevant to an understanding of the Group's financial performance:

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

- (i) Contract rationalisation and restructuring costs largely relate to the accounting impacts of the Group's decision to review its contract portfolio. As a result, the Group has exited 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.
- (ii) Further details on goodwill impairment can be found in Note 22.
- (iii) Management redundancies and integration costs as a result of the Downer takeover.
- (iv) Other balance sheet adjustments are costs which comprise the write-off of work in progress in relation to the underperforming new Royal Adelaide Hospital contract, as well as the write-off of certain other minor balance sheet items to align Spotless' accounting policy with Downer's.

8. Earnings per Share

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

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

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

	2019 \$m	2018 \$m
Net profit / (loss) attributable to the Group's ordinary equity holders used in calculating basic and diluted earnings / (loss) per share	84.0	(2.3)
<i>Weighted average number of shares (number):</i>	'000	'000
Weighted average number of ordinary shares for basic earnings / (loss) per share	1,102,240	1,102,240
Weighted average number of ordinary shares for diluted earnings / (loss) per share	1,102,240	1,102,240

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

9. Income Tax

(a) Income tax recognised in profit or loss

	2019 \$m	2018 \$m
Current tax expense	(13.7)	(0.3)
Deferred tax (expense) / benefit	(22.1)	15.3
Income tax (expense) / benefit	(35.8)	15.0

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

Profit / (Loss) before income tax	119.8	(17.3)
Income tax (expense) / benefit calculated at 30%	(35.9)	5.2
<i>Items that increase / (decrease) tax (expense) / benefit</i>		
Impairment of goodwill	-	(12.0)
Derecognition of prior year temporary difference	-	19.3
Effect of tax rates in foreign jurisdictions	0.2	0.2
Non-deductible expenses	(0.5)	(1.0)
Non-taxable gains	0.7	2.0
Other	(0.3)	1.3
	0.1	9.8
Income tax (expense) / benefit from continuing operations	(35.8)	15.0
Income tax benefit / (expense) reported in other comprehensive income	1.4	(0.6)
Total income tax (expense) / benefit	(34.4)	14.4

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%.

(c) Deferred tax assets

Arising from temporary differences

	2019 \$m	2018 \$m
Employee compensation and benefits accrued	31.1	30.4
Other provisions	29.8	17.7
Transaction related costs	4.1	3.3
Property, plant and equipment	3.1	3.0
Trade receivables and contract assets	17.0	-
Trade payables and contract liabilities	13.3	16.6
	98.4	71.0

Arising from tax losses or offsets

Revenue losses	28.3	32.5
Deferred tax assets	126.7	103.5

The Australian group has recognised a \$28.3 million (2018: \$32.5 million) deferred tax asset at 30 June 2019 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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

9. Income Tax (continued)

(d) Deferred tax liabilities

Arising from temporary differences

	2019 \$m	2018 \$m
Property, plant and equipment	(7.2)	(6.5)
Intangible assets	(31.7)	(34.9)
Deferred fulfillment costs	(6.5)	(4.0)
Other	(3.0)	(2.4)
Deferred tax liabilities	(48.4)	(47.8)

(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	(1.4)	0.6
----------------------	-------	-----

(f) Accounting Policies

Current tax

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

Deferred tax

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

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

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

Current and deferred tax for the year

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

9. Income Tax (continued)

(f) Accounting Policies (continued)

Tax consolidation

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

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

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

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

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

(g) Critical Accounting Estimates

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

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

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 receivables and contract assets, inventory, prepayments, trade payables and contract liabilities, current provisions and other current creditors.

10. Trade Receivables and Contract Assets

	2019 \$m	2018 \$m
Current		
Trade receivables	65.8	13.1
Allowance for doubtful debts (i)	(0.9)	(1.6)
	64.9	11.5
Contract debtors (a)	343.7	375.5
Other receivables	7.4	8.2
Total current trade receivables and contract assets	416.0	395.1
Non current		
Trade receivables	19.2	87.7
Contract debtors (a)	57.1	2.1
Other receivables	-	-
Total non current trade receivables and contract assets	76.3	89.8
(a) Contract balances		
Contract receivables	204.1	190.4
Contract assets	137.0	182.3
Retentions and capitalised costs to fulfil contracts	2.6	2.8
Current contract debtors	343.7	375.5
Non current contract assets	57.1	2.1
Total contract debtors	400.8	377.6
Current contract liabilities (Note 11)	54.0	29.0
Non current contract liabilities	11.9	-
Total contract liabilities	65.9	29.0
Net amount	334.9	348.6

(i) At 30 June 2019 there are no material individually impaired trade receivables included in the allowance for doubtful debts.

As of 30 June 2019, the aggregate amount of the transaction price allocated to the remaining performance obligations is \$7,900.8 million. The Group will recognise this revenue as the performance obligations are satisfied. Approximately 33% of the remaining performance obligations are expected to occur within the next five years; with the remaining 67% of performance obligations, being related to long-term service maintenance contracts, ranging up to 43 years.

When a customer can terminate for convenience without a substantive penalty, the contract term and related revenue are limited by the termination clause. Nonetheless, based on historical experience, these contracts are not expected to be cancelled and therefore future revenue and profits are expected to be recognised in line with the contract term. The Group has also applied the practical expedient available under the accounting standard to exclude those contracts with an original expected duration of less than 12 months for the above disclosure.

As permitted under the transitional provisions in AASB 15, the transaction price allocated to remaining performance obligations as of 30 June 2018 is not disclosed.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

10. Trade Receivables and Contract Assets (continued)

Movement in the allowance for doubtful debts

	2019 \$m	2018 \$m
Balance at start of the year	(1.6)	(2.5)
Amounts written off during the year	0.8	1.2
Increase in allowance recognised in profit or loss	(0.1)	(0.3)
Balance at end of the year	(0.9)	(1.6)

Ageing of past due (ii) (iii)

30 - 60 days	6.4	3.5
60 - 90 days	1.4	1.4
+90 days	3.8	5.0
Total	11.6	9.9

(ii) Included in the trade receivables balance are debtors with a carrying amount of \$10.7 million (2018: \$8.3 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.

To assess the allowance for doubtful debts, the Group adopts a statistical approach to determine the historical default rate in order to develop an estimate of expected future irrecoverable 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.

11. Current Trade Payables and Contract Liabilities

	2019 \$m	2018 \$m
Trade payables (i)	244.3	183.2
Contract liabilities	54.0	29.0
Accruals	98.5	142.8
Other	64.5	52.2
	461.3	407.2

(i) Credit periods range from 1 day prompt payment to 75 days. The average credit period is approximately 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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

12. Provisions

	2019		2018	
	Current \$m	Non-current \$m	Current \$m	Non-current \$m
Employee benefits (i)	95.5	10.3	91.2	10.0
Public liability	2.3	-	2.7	-
Environmental remediation	1.6	5.5	2.9	8.0
Property make-good	3.0	4.1	5.2	3.6
Onerous contracts	21.6	60.7	3.5	37.4
	124.0	80.6	105.5	59.0

(i) The current provision for employee benefits includes \$35.5 million (2018: \$35.1 million) of vested long service leave entitlements.

Reconciliations

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

	Public liability \$m	Environmental remediation \$m	Property make-good \$m	Onerous contracts \$m
Balance at 30 June 2017	2.9	11.9	13.4	31.0
Assumed in a business combination	-	0.3	-	22.8
Increased during the year (i)	2.2	2.0	1.4	3.7
Utilised during the year	(2.4)	(2.9)	(2.0)	(9.0)
Written back during the year (i)	-	(0.8)	(4.3)	(10.4)
Unwind of discount during the year (i)	-	0.4	0.3	2.8
Balance at 30 June 2018	2.7	10.9	8.8	40.9
Impact on adoption of AASB 15	-	-	-	85.2
Increased during the year	1.4	-	-	2.0
Utilised during the year	(1.8)	(2.1)	(0.2)	(33.6)
Written back during the year	-	(2.0)	(1.7)	(16.1)
Unwind of discount during the year	-	0.3	0.2	3.9
Balance at 30 June 2019	2.3	7.1	7.1	82.3
Current Provisions	2.3	1.6	3.0	21.6
Non-Current Provisions	-	5.5	4.1	60.7

(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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

12. Provisions (continued)

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 14 years.

(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 2019

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

2019	2018
\$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	109.9	91.2
	109.9	91.2

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

Profit / (Loss) for the year from continuing operations	84.0	(2.3)
Impairment and write-downs of intangible assets	-	40.0
Property, plant and equipment write-downs	-	10.1
Depreciation and amortisation	90.5	105.4
(Profit) / Loss from sales of non-current assets	(0.8)	(1.3)
Write-off of deferred fulfillment costs	-	(1.5)
Movement in deferred tax balances	24.0	(14.5)
Movement in income tax payable	6.7	(2.7)
<i>Changes in assets and liabilities, net of effects from acquisition of businesses:</i>		
(Increase) / decrease in assets:		
Receivables	(77.4)	(17.7)
Inventories	-	2.6
Prepayments	3.0	(3.3)
Increase / (decrease) in liabilities:		
Trade payables	34.7	25.7
Other liabilities	21.3	(4.4)
Provisions	(46.1)	(0.1)
Net cash provided by operating activities	139.9	136.0

(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 2019

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:

	2019 \$m	2018 \$m
Cash and cash equivalents (Note 13(a))	(109.9)	(91.2)
<i>Current borrowings</i>		
Finance lease liabilities secured at amortised cost (i)	2.7	3.6
Current derivatives at fair value	3.1	0.3
<i>Non-current borrowings</i>		
Bank loans at amortised cost	779.8	812.0
Finance lease liabilities secured at amortised cost (i)	7.3	11.0
Non-current derivatives at fair value	1.8	0.1
Issued capital, reserves and accumulated losses	396.1	424.1
Total capital	1,080.9	1,159.9

(i) Secured by the assets leased.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

14. Financial Instruments (continued)

(b) Financial assets and financial liabilities

	2019 \$m	2018 \$m
Financial Assets		
Cash and cash equivalents	109.9	91.2
Trade receivables and contract assets	492.3	484.9

Trade receivables and contract assets 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	(789.8)	(826.6)
Trade payables and contract liabilities	(461.3)	(407.2)
Non-current liability	(7.5)	-
Derivatives at fair value through OCI	(4.9)	(0.4)

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

Summary of borrowing arrangements

Syndicated bank loan facility:

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

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

Bilateral bank loan facilities:

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

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

Finance lease liabilities:

The Group has certain finance leases which are for an aggregate amount of \$10.0 million and which amortise over different periods of up to two years.

As at 30 June 2019, the Group had total committed facilities of \$1,053.4 million (2018: \$1,047.6 million), of which \$783.4 million is drawn (2018: \$817.6 million).

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

14. Financial Instruments (continued)

(b) Financial assets and financial liabilities (continued)

Unsecured syndicated facility, structured as one \$A280 million tranche and two NZ\$75 million tranches terminating on May 2021; and a \$A280 million tranche and a \$A200 million tranche terminating May 2022 ([Syndicated Facility Agreement](#)).

Amount drawn

Amount undrawn

Unsecured cash advance facilities, structured as two AUD50 million single currency revolving cash advance facilities, terminating May 2020 ([Bilateral Facility Agreement](#)).

Amount drawn

Amount undrawn

Unsecured term loan, structured as one AUD50 million facility, terminating March 2021 ([Facility Agreement](#)).

Amount drawn

Amount undrawn

Total Financing Facilities

	2019 \$m	2018 \$m
	733.4	717.6
	170.0	180.0
	-	50.0
	100.0	50.0
	50.0	50.0
	-	-
	1,053.4	1,047.6

(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

The Group measures a financial asset at fair value through other comprehensive income if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

14. Financial Instruments (continued)

(b) Financial assets and financial liabilities (continued)

(i) Accounting Policies (continued)

Financial assets at fair value through other comprehensive income (continued)

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 the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Dividends or other distributions received from these investments are recognised in the profit or loss when the entity's right to receive payment or the dividend is established.

Financial liabilities

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

Financial guarantee contract liabilities

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

(c) Financial covenants

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

Financial covenants are reviewed by the Spotless Board and reported to financiers on a semi-annual basis. The Group was in compliance with its financial covenants as at 30 June 2019.

(d) Hedging activities and derivatives

Derivatives not designated as hedging instruments

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

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

Cash flow hedges

Interest Rate Risk

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

14. Financial Instruments (continued)

(d) Hedging activities and derivatives (continued)

Cash flow hedges (continued)

2019

In June 2019, the Group executed a series of interest rate swaps to hedge variability in cash flows attributable to future movements in floating interest rates as follows:

- Extension to tenor of existing AUD450 million and NZD100 million for a further 2 years; and
- AUD150 million of additional one year hedges (AUD100 million effective July 2019 and AUD50 million effective October 2019).

The cash flow hedges of the floating rate debt were assessed to be highly effective and the fair value of all interest rate hedges is (\$4.9) 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 1 year	2.21%	100.0	2.14%	450.0	545.6
1-3 years	1.46%	100.0	1.24%	420.0	515.6
3 years +	-	-	1.28%	135.0	135.0

2018

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

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

Outstanding Floating for Fixed Contracts

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

14. Financial Instruments (continued)

(d) Hedging activities and derivatives (continued)

(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.

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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

14. Financial Instruments (continued)

(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 manages interest rate risk under a Board approved Treasury Policy and interest rate exposure and compliance with Policy is regularly reported 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 2019, after taking into account the effect of interest rate swaps and other fixed-rate borrowings, \$555.6 million (2018: \$64.6 million) or 70% (2018: 8%) 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.

	2019 \$m	2018 \$m
100 basis point p.a. increase		
Net profit	(1.4)	7.5
Equity	13.9	8.0
100 basis point p.a. decrease		
Net profit	1.4	(7.6)
Equity	(14.2)	(8.1)

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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

14. Financial Instruments (continued)

(f) Financial risk management (continued)

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's liquidity risk is managed under a Board approved Treasury Policy and is reported to the Board of Directors. Liquidity risk is managed through frequent and periodic cash flow forecasting and analysis. At 30 June 2019, the Group had unutilised committed debt facilities of \$270.0 million (2018: \$230.0 million).

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 1 year	1 to 3 years	More than 3 years	Total
2019		\$m	\$m	\$m	\$m
Trade payables and contract liabilities	-	(461.3)	-	-	(461.3)
Bank loans (i)	3.44%	-	(783.4)	-	(783.4)
Finance lease liabilities	5.80%	(2.7)	(7.2)	(0.1)	(10.0)
		(464.0)	(790.6)	(0.1)	(1,254.7)
2018					
Trade payables and contract liabilities	-	(407.2)	-	-	(407.2)
Bank loans (i)	3.40%	-	(517.6)	(300.0)	(817.6)
Finance lease liabilities	5.75%	(4.2)	(5.5)	(4.9)	(14.6)
		(411.4)	(523.1)	(304.9)	(1,239.4)

(i) Excludes deferred borrowing costs of \$3.6 million (2018: \$5.6 million)

(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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

14. Financial Instruments (continued)

(g) Credit risk management (continued)

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 investment grade 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.

15. Equity

Ordinary shares issued and fully paid

	2019		2018	
	'000	\$m	'000	\$m
Balance at the beginning of the financial year	1,102,240	993.8	1,098,404	993.8
Ordinary shares issued upon exercise of rights and options (i)	-	-	3,836	-
Balance at the end of the financial year	1,102,240	993.8	1,102,240	993.8

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

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 2019.

Franking credit balance

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

	2019	2018
	\$m	\$m
Australian franking account balance as at the end of financial year at 30% (2018: 30%)	13.8	4.4
New Zealand franking account balance as at the end of financial year at 28% (2018: 28%)	5.9	19.8
	19.7	24.2

(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 2019

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 2017	49.0	9.1	49.4	263.5	209.7	580.7
Additions acquired through business combination	-	-	0.1	10.1	1.5	11.7
Additions	-	-	9.3	40.2	36.2	85.7
Disposals	(4.4)	-	(20.1)	(24.7)	-	(49.2)
Impairment	-	-	-	(17.5)	-	(17.5)
Net foreign exchange variance	-	-	(0.3)	(0.6)	(3.7)	(4.6)
Balance at 30 June 2018	44.6	9.1	38.4	271.0	243.7	606.8
Additions acquired through business combination	-	-	-	0.8	-	0.8
Additions	-	-	9.8	27.0	35.4	72.2
Disposals	(2.6)	(0.6)	(2.3)	(11.6)	(130.0)	(147.1)
Net foreign exchange variance	-	-	0.3	1.5	1.4	3.2
Balance at 30 June 2019	42.0	8.5	46.2	288.7	150.5	535.9
Accumulated depreciation						
Balance at 1 July 2017	-	(1.1)	(27.8)	(101.5)	(169.1)	(299.5)
Depreciation expense	-	(0.2)	(5.0)	(33.2)	(33.4)	(71.8)
Disposals	-	-	13.5	19.1	-	32.6
Net foreign exchange variance	-	-	0.1	1.1	-	1.2
Balance at 30 June 2018	-	(1.3)	(19.2)	(114.5)	(202.5)	(337.5)
Depreciation expense	-	(0.3)	(4.9)	(29.3)	(32.6)	(67.1)
Disposals	-	0.1	1.5	9.3	129.8	140.7
Net foreign exchange variance	-	-	(0.2)	(0.7)	(1.1)	(2.0)
Balance at 30 June 2019	-	(1.5)	(22.8)	(135.2)	(106.4)	(265.9)
Net book value						
As at 30 June 2018	44.6	7.8	19.2	156.5	41.2	269.3
As at 30 June 2019	42.0	7.0	23.4	153.5	44.1	270.0

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

16. Property, Plant and Equipment (continued)

(a) Finance leases

The carrying value of plant and equipment held under finance lease contracts at 30 June 2019 was \$8.8 million (2018: \$12.0 million). Additions during the year include \$2.2 million (2018: \$15.5 million) of plant and equipment under finance lease contracts.

During the year, the Group entered into a sale and operating leaseback transaction with its motor vehicle leasing provider. The transaction encompassed approximately 260 vehicles and resulted in the Group recording of a profit on sale of \$0.4 million for the year ended 30 June 2019.

(b) Capital expenditure commitments

Plant and equipment

2019	2018
\$m	\$m
19.7	13.8
19.7	13.8

(c) Accounting Policy

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

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

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

(d) Critical Accounting Estimates

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

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

17. Intangible Assets	Customer contracts \$m	Software development \$m	Total \$m
Estimated useful lives	6-30 years	12 years	
Cost			
Balance at 1 July 2017	111.1	101.9	213.0
Acquisitions through business combinations	5.5	-	5.5
Additions from software development	-	0.5	0.5
Transfer of software development	-	(0.5)	(0.5)
Balance at 30 June 2018	116.6	101.9	218.5
Additions from software development	-	1.3	1.3
Balance at 30 June 2019	116.6	103.2	219.8
Accumulated amortisation and impairment			
Balance at 30 June 2017	(44.1)	(36.0)	(80.1)
Amortisation for the year	(11.0)	(4.8)	(15.8)
Balance at 30 June 2018	(55.1)	(40.8)	(95.9)
Amortisation for the year	(11.0)	(4.8)	(15.8)
Balance at 30 June 2019	(66.1)	(45.6)	(111.7)
Net book value			
As at 30 June 2018	61.5	61.1	122.6
As at 30 June 2019	50.5	57.6	108.1

(a) Accounting Policies

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset. They are assessed to have a finite life and are amortised on a straight-line basis over their estimated useful lives. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses.

Customer contracts

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

17. Intangible Assets (continued)

(a) Accounting Policies (continued)

Software development

Where no internally-generated intangible asset can be recognised, software development expenditure is recognised as an expense in the period as incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised if all of the following have been demonstrated:

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

The amount initially recognised for software development is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. When completed, software development is amortised on a straight-line basis over its estimated useful life. Internally-generated intangible assets are reported at cost less accumulated amortisation and impairment losses.

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

Impairment of assets

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

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

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

(b) Critical Accounting Estimates

Useful lives of acquired customer contracts

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

Impairment of intangible assets (including software development costs)

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

18. Other Non-Current Assets

	2019	2018
	\$m	\$m
Deferred fulfillment costs	15.4	13.4
Other	0.9	2.1
	16.3	15.5

(a) Accounting Policy

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

19. Leases

(a) Operating leases

Leasing arrangements

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

Non-cancellable operating leases

	2019	2018
	\$m	\$m
Not longer than 1 year	29.4	41.1
Longer than 1 year and not longer than 5 years	78.6	99.7
Longer than 5 years	111.7	118.9
	219.7	259.7

(b) Finance leases

The Group has finance leases for various items of plant and equipment 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:

	2019		2018	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	\$m	\$m	\$m	\$m
Not longer than 1 year	3.0	2.7	4.5	4.2
Longer than 1 year and not longer than 5 years	7.3	7.3	11.4	10.4
Longer than 5 years	-	-	-	-
Minimum finance lease payments	10.3	10.0	15.9	14.6
Less future finance charges	(0.3)	-	(1.3)	-
Present value of minimum lease payments	10.0	10.0	14.6	14.6

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

19. Leases (continued)

(c) Accounting Policy

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

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

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

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

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

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

- (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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

20. Controlled Entities (continued)

- (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.

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:

	Consolidated 2019 \$m	Consolidated 2018 \$m
Income Statement		
Revenue	2,654.3	2,652.5
Other income	8.7	3.9
	2,663.0	2,656.4
Direct employee and subcontractor expenses	(1,835.4)	(1,873.3)
Raw materials, consumables and finished goods used	(400.3)	(407.8)
Other expenses	(206.1)	(275.6)
Profit before depreciation, finance costs and income tax (EBITDA)	221.2	99.7
Depreciation and amortisation expense	(80.1)	(94.3)
Profit before finance costs and income tax (EBIT)	141.1	5.4
Net finance costs	(33.6)	(31.1)
Profit / (Loss) before income tax	107.5	(25.7)
Income tax (expense) / benefit	(33.5)	18.2
Profit / (Loss) for the year	74.0	(7.5)

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

20. Controlled Entities (continued)	Consolidated 2019 \$m	Consolidated 2018 \$m
Current assets		
Cash and cash equivalents	81.3	70.6
Trade receivables and contract assets	303.5	280.6
Inventories	25.5	25.9
Prepayments	10.7	13.2
Total current assets	421.0	390.3
Non-current assets		
Investments accounted for using the equity method	0.5	0.4
Investment in subsidiaries	114.0	114.0
Trade receivables and contract assets	78.8	89.7
Property, plant and equipment	244.8	243.4
Goodwill	771.0	744.8
Intangible assets	108.1	122.6
Deferred tax assets	120.6	99.9
Other	15.4	14.3
Total non-current assets	1,453.2	1,429.1
Total assets	1,874.2	1,819.4
Current liabilities		
Trade payables and contract liabilities	414.0	359.6
Borrowings	2.6	2.4
Current tax payable	8.0	2.4
Provisions	111.3	92.8
Derivatives at fair value	2.7	0.2
Total current liabilities	538.6	457.4
Non-current liabilities		
Amounts due to related parties	-	0.1
Borrowings	643.5	684.1
Deferred tax liabilities	46.7	46.8
Provisions	80.2	55.0
Derivatives at fair value	1.6	-
Other	20.1	1.0
Total non-current liabilities	792.1	787.0
Total liabilities	1,330.7	1,244.4
Net assets	543.5	575.0
Equity		
Issued capital	993.8	993.8
Reserves	27.0	29.3
Accumulated losses (i)	(477.3)	(448.1)
Total equity	543.5	575.0

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

20. Controlled Entities (continued)

	Consolidated 2019 \$m	Consolidated 2018 \$m
<i>(i) Accumulated losses</i>		
Balance at beginning of the year	(448.1)	(440.6)
Net profit / (loss)	74.0	(7.5)
Effect of AASB 15	(103.2)	-
Balance at end of the year	(477.3)	(448.1)

21. Business Combinations

On 28 February 2019, the Group acquired 100% of the share capital of the following entities (collectively known as "Envar"):

- Airparts Fabrication Pty Ltd
- Airparts Holdings Pty Ltd
- Envar Engineers and Contractors Pty Ltd
- Envar Holdings Pty Ltd
- Envar Installation Pty Ltd
- Envar Service Pty Ltd

The primary purpose of this acquisition is to continue to build a market leading integrated mechanical and electrical business. The accounting for this acquisition remains provisional as at 30 June 2019 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.

	Provisional at 30 Jun 2019 \$m
Assets	
Cash and cash equivalents	6.7
Trade receivables and contract assets	0.3
Inventories	0.1
Property, plant and equipment	0.8
Deferred tax assets	0.8
	8.7
Liabilities	
Trade payables and contract liabilities	8.0
Employee provisions	1.3
Other liabilities	0.7
	10.0
Total identifiable net liabilities at fair value	(1.3)
Purchase consideration transferred - cash	10.0
Deferred purchase consideration payable	14.9
Goodwill arising on acquisition	26.2

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

21. Business Combinations (continued)

	Cash flow on acquisition \$m
Cash paid	(10.0)
Net cash acquired	6.7
Net cash flow on acquisition	(3.3)

Envar contributed \$20.5 million of revenue and \$3.7 million to profit after tax for the year ended 30 June 2019. If the acquisition had taken place at the start of the year, annualised revenue from continuing operations for the Group would have been \$3,066.1 million, and profit after tax for the Group would have been \$91.4 million for the year ended 30 June 2019.

The goodwill of \$26.2 million includes knowledge, business and capability acquired as well as the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition related transaction costs of \$0.2 million (2018: \$0.1 million) were recognised in other expenses in the Statement of Profit or Loss and Other Comprehensive Income during the year.

(a) Accounting Policy

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

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

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

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

22. Goodwill

	2019 \$m	2018 \$m
Balance at the beginning of the year	744.8	753.4
Acquired in a business combination (Note 21)	26.2	31.4
Impairment loss (Note 22(c))	-	(40.0)
Balance at the end of the year	771.0	744.8

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

22. Goodwill (continued)

(a) Accounting Policy

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

(b) Allocation of Goodwill

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

	2019 \$m	2018 \$m
Facility Services	702.8	676.6
Laundries	68.2	68.2
Balance at the end of the year	771.0	744.8

(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.

Impairment testing at 30 June 2019 was undertaken at the Facility Services and Laundries CGU level. The discussion below outlines the Group's methodology and approach at 30 June 2019 for impairment testing.

(i) Methodology and Testing of Recoverable Amount

Value in Use ("VIU")

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 (11.0% for the Facility Services CGU and 10.7% for the Laundries CGU) and is reflective of the current market assessment of the risks specific to each CGU taking into consideration the time value of money.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

22. Goodwill (continued)

(c) Impairment Testing of Goodwill (continued)

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 1.6% to 4.3% between years 2 and 5.

iv) Long Term Growth Rate

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

(d) Sensitivity Analysis

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

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

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

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

1.0% increase in the pre-tax discount rate
1.0% decrease in the compound annual EBITDA growth rate
1.0% decrease in the long-term growth rate

Laundries \$m

(40.9)
(8.1)
(30.7)

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

23. Parent Entity Disclosures

As at 30 June 2019 the parent company of the Group was Spotless Group Holdings Limited.

	2019 \$m	2018 \$m
Result of the parent entity		
Profit / (Loss) after tax for the year	0.7	(7.6)
Other comprehensive income	-	-
Total comprehensive profit / (loss) for the year	0.7	(7.6)
Financial position of the parent entity at year end		
Current assets	-	-
Non-current assets	1,442.4	1,439.3
Total assets	1,442.4	1,439.3
Current liabilities	398.6	403.2
Non-current liabilities	8.1	-
Total liabilities	406.7	403.2
Net assets	1,035.7	1,036.1
Total equity of the parent entity at year end comprised:		
Issued capital	993.8	993.8
Reserves	13.3	13.3
Retained earnings	28.6	29.0
Total equity	1,035.7	1,036.1

During the year, the Company did not receive any dividends from its wholly-owned subsidiary (2018: Nil).

Parent entity contingencies

The parent entity has no bank guarantees or any contingent liabilities or capital commitments as at 30 June 2019 (2018: 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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

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:

	2019	2018
	\$	\$
Short-term employee benefits	2,400,972	3,819,868
Long-term benefits	23,206	66,880
Post-employment benefits	95,367	114,141
Termination benefits	733,011	1,802,226
Share-based payment	58,893	-
	3,311,449	5,803,115

(c) Key management personnel equity interests

As at 30 June 2019 key management personnel held 800,000 (2018: 800,000) fully paid shares and nil (2018: 1,484,088) share options and rights in the Group.

(d) Other transactions with key management personnel

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

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

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

(e) Transactions within the wholly-owned group

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

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

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

(f) Transactions with other related parties

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

During the year, the Group paid expenses of \$26.4 million (2018: \$1.9 million) to the Downer Group and received \$29.7 million (2018: \$3.8 million) in revenue from the Downer Group. At 30 June 2019, the Group held payables of \$18.2 million (2018: \$0.9 million) to the Downer Group and receivables of \$12.7 million (2018: \$0.7 million) from the Downer Group.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

24. Related Party Disclosures (continued)

(f) Transactions with other related parties (continued)

The sales to and purchases from the Downer Group are made on terms equivalent to those that prevail in arm's length transactions. No material amounts were charged or recharged by any other related parties (2018: Nil).

(g) Controlling entities

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

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

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

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

25. Share-based Payment

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

With regard to the balance of unvested Executive Options and Rights that did not vest on a pro-rata basis, the Board exercised discretion under the LTI Plan Rules to approve the vesting of those LTI Options and LTI Rights at the time the Downer offer became unconditional. This occurred on 19 June 2017. No additional LTI Options or LTI Rights were granted in the years ended 30 June 2018 or 30 June 2019.

	2019 Number	2019 WAEP (i)	2018 Number	2018 WAEP (i)
(a) Executive Options and Rights				
Balance at the beginning of the financial year	5,782,949	2.69	13,409,550	1.16
Expired during the year	(5,782,949)	-	-	-
Exercised during the year	-	-	(7,626,601)	-
Balance at the end of the financial year	-	-	5,782,949	2.69

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

(b) 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 2019

25. Share-based Payment (continued)

(c) 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 (iii)	Dividend yield	Risk Free rate	Performance criteria	Vesting date	Expiry date
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)	(ii)	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)	(ii)	0.1030	2.07	50.12%	7.89%	1.51%	RTSR	30 June 2019	30 June 2020

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

(ii) 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.

(iii) 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 2019

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

	2019	2018
	\$m	\$m
Legal proceedings (i)	-	-
Bank guarantees, insurance bonds and letters of credit (ii)	153.7	146.9
Catering rights	89.2	120.7

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

No provision has been recognised at 30 June 2019 in respect of the representative proceeding.

Other than the above, the Group does not have any material contingent liabilities in respect of legal proceedings as at 30 June 2019 (30 June 2018: 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

	2019	2018
	\$	\$
Auditing the financial statements	1,180,000	1,100,000
Other services:		
Other assurance services	80,000	24,000
Taxation services	10,000	42,000
Other non-audit services	275,000	529,000
	1,545,000	1,695,000

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

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the year ended 30 June 2019

28. Events After the Reporting Period

In September 2017 Spotless commenced a Facilities Management Sub-Contract ("Subcontract") at the New Royal Adelaide Hospital (nRAH). Spotless' subcontract is with Celsus, which has a head contract with the South Australian Government as part of a Public Private Partnership model.

On 21 August 2019, Spotless reached in-principle agreement with the South Australian Government and Celsus in relation to the delivery of services under the Subcontract. The agreement includes;

- settlement of historical abatement claims previously disclosed as a contingent liability by Downer and Spotless;
- a revised KPI and abatement regime designed to better reflect the services provided by Spotless;
- an increase to Spotless' monthly service fee.

The settlement agreement, which is expected to be signed in the first half of the 2020 financial year, will take financial effect from 1 July 2019.

On 25 June 2019, the Company announced that it had formally applied to be removed from the ASX official list pursuant to ASX Listing Rule 17.11 (Delisting). The Delisting was subsequently approved by a special resolution of shareholders on 26 July 2019. With all other conditions imposed by the ASX having been satisfied, trading in the Company's shares will be suspended from 7.00pm on 27 August 2019 and the Company will be removed from the ASX official list on 30 August 2019.

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



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

To the Directors of Spotless Group Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Spotless Group Holdings Limited for the financial year ended 30 June 2019 there have been:

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

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'James Dent'.

James Dent
Partner

Melbourne
22 August 2019

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 2019 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 2019.

Signed in accordance with a resolution of the Directors.

On behalf of the Board of Directors



J Humphrey
Chairman
Melbourne, 22 August 2019



P Tompkins
Chief Executive Officer & Managing Director
Melbourne, 22 August 2019



Independent Auditor's Report

To the shareholders of Spotless Group Holdings Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- the Consolidated Statement of Financial Position as at 30 June 2019;
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Cash Flow Statement for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

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

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

Key Audit Matters

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

- Onerous contract assessment in relation to the new Royal Adelaide Hospital Facilities Management Subcontract;
- Valuation of goodwill; and
- Recognition of revenue and disclosure of transitional adjustments to AASB 15 *Revenue from Contracts with Customers*.

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

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

Onerous contract assessment in relation to the new Royal Adelaide Hospital Facilities Management Subcontract	
Refer to Note 12 <i>Provisions</i> and Note 28 <i>Events after the Reporting Period</i> to the Financial Report.	
The key audit matter	How the matter was addressed in our audit
<p>The Group's Facilities Management Sub-contract ("Subcontract") with the new Royal Adelaide Hospital (nRAH) is a cash negative underperforming contract. The Group has been in negotiations with the State of South Australia and Celsus regarding claims for additional revenue and variations to contractual terms including out-of-scope services throughout the year, and reached an in-principle agreement post-year end. Celsus is the public-private partnership project consortium responsible for the management of nRAH.</p> <p>Our assessment of the Group's onerous contract provision related to the Subcontract is a Key Audit Matter due to:</p> <ul style="list-style-type: none"> • The compilation process, as contained in the Group's contract profitability model, is complex, and uses a number of forecasted data points and assumptions. The adoption of AASB 15 <i>Revenue from Contracts with Customers</i> ("AASB 15") on 1 July 2018 resulted in a change in the quantum of forecast revenue included in the Group's model. This resulted in the Group determining that the contract was onerous and increased our audit effort in this key area. • The status of negotiations at balance date for certain services not in the Subcontract, which 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Reading the Subcontract with Celsus to understand the scope of work the Group is contracted to undertake, pricing arrangements, abatement regime and the protocols to address disputes; • Reading legal advice obtained by the Group regarding the application of various contractual terms and conditions to understand the scope and the Group's obligations of the Subcontract; • Visiting nRAH to observe the services being provided by the Group and meet with management personnel to understand the Subcontract and the contractual obligations of the Group; • Evaluating the basis for recognition of the onerous contract provision against the Group's accounting policy and the accounting standards; • Assessing key assumptions adopted by the Group in the contract profitability model as follows: <ul style="list-style-type: none"> - assessing the discount rate used in the Group's contract profitability model by considering factors including economic conditions and observable market rates impacting the current year discount rate relative to the prior year. We also compared this discount rate to the discount rates used

Onerous contract assessment in relation to the new Royal Adelaide Hospital Facilities Management Subcontract

Refer to Note 12 *Provisions* and Note 28 *Events after the Reporting Period* to the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>are considered out-of-scope services. AASB 15 requires the Group to estimate the amount of revenue considered highly probable to be received during the year.</p> <p>These circumstances increase the risk of inaccurate forecasting of the data points and assumptions, challenges the persuasiveness of evidence available for us, and widens the range of possible outcomes for us to consider in our audit.</p> <p>We applied our audit effort on the Group's model to the forecast data points and assumptions contributing most significantly to the projection of the Subcontract performance. These included:</p> <ul style="list-style-type: none"> • Forecast costs to deliver the contracted services ("forecast costs") – driven by estimates of costs of performing maintenance services and relevant employee headcount for the duration of the Subcontract, and the timing of the execution of maintenance services. • Future revenue – The Subcontract includes certain operational performance metrics the Group is required to meet and the Group is subject to abatements in the event these metrics are not met. As such, the Group is required to forecast the extent to which it will meet the performance metrics and hence the amount of revenue that is highly probable to be received. • Forecast revenue for the out-of-scope services under negotiation with the relevant parties at balance date – We focused on the status of negotiations to inform our assessment of revenue recognised during the year. • Discount rate – these are subject to judgement and can have a significant impact on the quantum of the onerous contract provision. 	<p>for other long term provisions carried by the Group for consistency;</p> <ul style="list-style-type: none"> - comparing the forecast costs to historical trends achieved since Subcontract mobilisation; - analysing economic assumptions relating to forecast costs including inflation and labour growth against publically available data; - considering the sensitivity of the contract profitability model by varying key assumptions, such as the discount rate, future revenue and forecast costs within a reasonably possible range, to identify the assumptions most critical to the Subcontract's profitability. <ul style="list-style-type: none"> • Assessing the appropriateness of future revenue recognised within the contract profitability model against the revenue recognition criteria of AASB 15; • Challenging future revenue by comparing forecast operational performance metrics with historic operational performance metrics and considering the plausibility of initiatives implemented by the Group to optimize its performance relative to the required levels in the Subcontract. We used our knowledge of the Group, its past performance, business and customers, and our industry experience; • Assessing the mathematical integrity of the contract profitability model including the accuracy of the underlying calculation formula; • Comparing the output of the contract profitability model to the onerous contract provision recorded by the Group; • Assessing the consistency of assumptions in the contract profitability model to those contained in other similar contracts of the Group; • Inspecting the in-principle agreement to: <ul style="list-style-type: none"> - compare the terms upon which the forecast revenue for the out of scope services was recognised to the requirements of the Group's accounting policy and the accounting standards; and - check the Group's revenue recognised for

Onerous contract assessment in relation to the new Royal Adelaide Hospital Facilities Management Subcontract

Refer to Note 12 *Provisions* and Note 28 *Events after the Reporting Period* to the Financial Report.

The key audit matter	How the matter was addressed in our audit
	<p>out-of-scope services as being highly probable to be received.</p> <ul style="list-style-type: none"> Reading documents prepared by the Group submitted to Celsus and the State of South Australia in connection with the negotiations to assess consistency with the assumptions included in the Group's contract profitability model; and Assessing the events after the reporting period disclosure for consistency to the in-principle agreement.

Valuation of goodwill

Refer to Note 22 *Goodwill* to the Financial Report (\$771.0m)

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter was the Group's annual testing of goodwill for impairment, given the size of the balance (being 40% of total assets) and impairment write-downs in prior years. We focused on the significant forward-looking assumptions the Group applied in their value in use models, including:</p> <ul style="list-style-type: none"> forecast cash flows – there is a significant level of judgement applied by the Group to forecast cash flows including the outcome of tenders and forecast contract costs; forecast growth rates and terminal growth rates; and discount rates - these are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time, and the models' approach to incorporating risks into the cash flows or discount rates. <p>The Group's models, in particular for the Laundries CGU, are sensitive to changes in these assumptions, reducing available headroom in the Facility Services CGUs and increasing the risk of further impairment in the Laundries CGU.</p> <p>The Group has a large number of operating businesses and service lines necessitating our consideration of the Group's determination of</p>	<p>Working with our valuation specialists our procedures included:</p> <ul style="list-style-type: none"> We considered the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards; We assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas; We considered the Group's determination of their CGUs based on our understanding of the operations of the Group's business and how independent cash inflows were generated, against the requirements of the accounting standards; We analysed the Group's internal reporting to assess the Group's monitoring and management of activities, and the consistency of the allocation of goodwill to CGUs; We compared the forecast cash flows contained in the value in use models to Board approved forecasts; We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts

Valuation of goodwill	
Refer to Note 22 <i>Goodwill</i> to the Financial Report (\$771.0m)	
The key audit matter	How the matter was addressed in our audit
<p>CGUs, based on the smallest group of assets to generate largely independent cash inflows and the allocation of goodwill across CGUs.</p> <p>The Group uses complex models to perform their annual testing of goodwill for impairment. The models are largely manually developed, use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.</p> <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<p>incorporated in the models;</p> <ul style="list-style-type: none"> • We considered the sensitivity of the models by varying key assumptions, such as forecast growth rates, forecast contract tender outcomes, terminal growth rates and discount rates, within a reasonably possible range, to identify those CGUs at higher risk of impairment and to focus our further procedures; • We challenged the Group's key forecast cash flow growth assumptions. We compared key events to the Board approved plan and strategy; • We compared forecast growth rates and terminal growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, their past performance, business and customers, and our industry experience; • We checked the consistency of the growth rates to the Group's stated plan and strategy, past performance of the Group, and our experience regarding the feasibility of these in the industry in which they operate; • We independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in; • We recalculated the impairment charge in the Laundries CGU model against the recorded amount disclosed; and • We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

Recognition of revenue and disclosures of transitional adjustments to AASB 15 *Revenue from Contracts with Customers*

Refer to Note 5 *Revenue* to the Financial Report (\$3,025.1m)

The key audit matter	How the matter was addressed in our audit
<p>A substantial amount of the Group's revenue relates to revenue from the rendering of services. Where certain contracts have a long-term duration, the Group's policy specifies revenue and margin can be recognised based on the stage of completion of individual contracts. This is predominantly calculated on the proportion of total costs incurred at the reporting date compared to the Group's estimation of total costs of the contract. We focussed on these types of contracts due to the high level of estimation involved, in particular relating to:</p> <ul style="list-style-type: none"> • Forecasting total cost to complete at initiation of the contract, including the estimation of cost contingencies for contracting risks; • Revisions to total forecast costs for certain events or conditions occurring during the performance of the contract, or are expected to occur to complete the contract; and • The recognition of variations and claims, based on an assessment by the Group as to whether this is an approved scope or unapproved contract modification, and the Group's estimate of the corresponding change in prices. <p>We focused on this area as a key audit matter due to the number and type of estimation events occurring over the course of the contract life, leading to complex and judgemental revenue recognition from contracts.</p> <p>In addition to the above, the transition to the new accounting standard AASB 15 <i>Revenue from contracts with customers</i> (AASB 15) resulted in additional disclosure of the transition adjustments. We focussed on the transitional disclosures as a key audit matter due to the audit effort required from the:</p> <ul style="list-style-type: none"> • complex nature of the changes to the accounting standard and the impact on services and construction contract accounting requiring senior team involvement; and • consideration of consistency in application of AASB 15 across the contracts of the Group. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We evaluated the Group's process regarding accounting for contract revenues. We tested controls such as: <ul style="list-style-type: none"> - Management's review and approval of monthly contract profitability reporting; and - Management's approval of new contracts. • We applied a risk based approach to select a sample of contracts for testing based on a number of quantitative and qualitative factors. These factors included contracts with a significant amount of revenue recorded for a particular contract, multi-element services included in the contract, and long-dated contracts which, give rise to a greater level of judgement required by the Group when assessing forecast costs to complete over the life of the contract. For the sample selected, where relevant: <ul style="list-style-type: none"> - we read the contract terms and conditions to evaluate how the individual characteristics of each contract were reflected in the contract profitability estimate; - we considered the sensitivity of the costs to complete including the estimation of cost contingencies by varying key forecast cost assumptions within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures; - we assessed the Group's ability to forecast margins on contracts by analysing the accuracy of previous margin forecasts to actual outcomes; - we compared revisions to forecast contract costs from forecast costs applied at contract initiation for consistency with current work plans ; - we assessed variations and claims by evaluating the underlying customer approvals and the Group's estimation of the corresponding change in price; and - we evaluated the Group's legal and external expert's reports received on contentious

	<p>matters to identify conditions indicating the inappropriate recognition of variations and claims. We checked the consistency of this to the inclusion or not of an amount in the estimates used for revenue recognition.</p> <ul style="list-style-type: none"> • We evaluated disclosures relating to AASB 15 as follows: <ul style="list-style-type: none"> - we selected a sample of the contracts assessed by the Group to determine the transitional impacts of the new standard and we evaluated the conclusions reached by the Group using our understanding of the contracts obtained in the procedures noted above, in the context of the requirements of AASB 15; and - we compared these disclosures to: <ul style="list-style-type: none"> ○ amounts included in the Group's underlying calculations for consistency; and ○ our understanding of the various transitional adjustments and the requirements of the accounting standards.
--	---

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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



Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Spotless Group Holdings Limited for the year ended 30 June 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 15 to 25 of the Directors' report for the year ended 30 June 2019.

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

KPMG

James Dent
Partner

Melbourne
22 August 2019