Spotless Group Holdings Limited
Appendix 4D
Half year report for the period ended 31 December 2018

Name of entity	**Current Period**
Spotless Group Holdings Limited	Period ended 31 December 2018
ABN	**Prior Corresponding Period**
27 154 229 562	Period ended 31 December 2017

Results for announcement to the market	**% Movement compared to the prior period**		**Current Period A$**	
Revenue from ordinary activities	Down	2.7%	to	$1,457.3 million
Reported net profit from ordinary activities after tax	Up	>100%	to	$39.0 million
Reported net profit attributable to members	Up	>100%	to	$39.0 million

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

Fiscal 2019 interim dividend dates

Record date	N/A
Payment date	N/A

Ratios	**31 December 2018**	**31 December 2017**
Net tangible assets backing per share (cents)	-45.8 c	-44.5 c

Review Results

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

Enquiries
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Group Head of Corporate Affairs and Investor Relations
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Spotless Group Holdings Limited

RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

- Sales Revenue of $1,457.3 million, down 2.7% from the prior corresponding period, reflecting the impact of contracts exited in 1H18, partially offset by newly mobilised contracts.

- EBITDA of $121.6 million, increased from 1H18 by $107.9 million due to the comparative period being significantly impacted by $109.3 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 EBITDA 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 $39.0 million increased from 1H18 by $78.6 million due to the comparative period being significantly impacted by $76.7 million of individually significant items (after tax) primarily relating to the goodwill impairment ($40.0 million), contract rationalisation and restructure costs ($5.1 million) and other balance sheet adjustments ($29.4 million).

- Operating cash flows of $75.9 million increased by $35.4 million from the prior period 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 $701.7 million decreased by $104.0 million from 1H18 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 interim dividend for the half year ended 31 December 2018.

Half Year Ended 31 December	2018 $m	2017 $m	Change %
Sales Revenue	**1,457.3**	**1,498.1**	(2.7)
EBITDA	**121.6**	**13.7**	>100
EBIT	**76.8**	**(46.6)**	>100
Profit / (Loss) after tax	**39.0**	**(39.6)**	>100
Basic earnings / (losses) per share (cents)	**3.5**	**(3.6)**	>100
Interim dividend per share (cents)	**-**	**-**	-
Operating cash flow	**75.9**	**40.5**	87.4
Net debt	**701.7**	**805.7**	12.9
Net leverage ratio[1]	**2.8x**	**2.9x**	n/a

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

Review of Operations

Individually Significant Items

The results for the half year ended 31 December 2018 have not been impacted by any individually significant items. The comparative period includes $76.7 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 1H18 by $40.8 million (-2.7%) reflecting the impact of contracts exited in 1H18, 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 1H18 by $107.9 million due to the comparative period being significantly impacted by $109.3 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. This is attributable to the FY18 exit of low margin / loss making contracts and the continued focus on margin improvement.

Depreciation and amortisation expense decreased by $15.5 million driven by $10.4 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 31%.

Operating Segments

Facility Services

Half year ended 31 December	2018 $m	2017 $m	Change %
Facility Services Sales Revenue	**1,340.3**	1,404.0	(4.5)
Facility Services EBITDA	**105.4**	54.7	92.7
Depreciation	**(12.3)**	(25.7)	52.1
Facility Services EBITA	**93.1**	29.0	>100
Facility Services EBITDA Margin	**7.9%**	3.9%	
Facility Services EBITA Margin	**6.9%**	2.1%	

Facility Services revenue has declined from 1H18 attributable to reduced planned work within the NSW Government line of business and the impact of the prior year exit of the airport portfolio partially offset by a newly mobilised Education PPP contract. 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, 1H18 was significantly impacted by individually significant items. Contract rationalisation costs, restructuring costs and other largely non-cash balance sheet adjustments totalling $67.2 million (write-off of new Royal Adelaide Hospital WIP and alignment with Downer's accounting policies), impacted 1H18 pre-tax earnings.

Operating Segments (continued)

Laundries

Half year ended 31 December	2018 $m	2017 $m	Change %
Laundries Sales Revenue	**134.5**	137.7	(2.3)
Laundries EBITDA	**29.2**	(11.0)	>100
Depreciation (including rental stock)	**(21.3)**	(23.5)	9.4
Laundries EBITA	**7.9**	(34.5)	>100
Laundries EBITDA Margin	**21.7%**	(8.0%)	
Laundries EBITA Margin	**5.9%**	(25.1%)	

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 $40.9 million of individually significant items in the prior year, EBITDA was marginally above 1H18.

Cash Flow

Half year ended 31 December	2018 $m	2017 $m	Change %
Operating cash flow	**75.9**	**40.5**	
Investing Activities			
Net investments for PP&E, IT[1] systems and capitalised contract costs	(32.2)	*(32.8)*	
Facility Services – PP&E and capitalised contract costs	*(6.6)*	*(12.7)*	*48.0*
Facility Services – Asset sales	*1.0*	*3.8*	*>(100)*
Laundries – PP&E and capitalised contract costs	*(7.0)*	*(5.3)*	*(32.1)*
Laundries – Rental stock	*(15.7)*	*(16.7)*	*6.0*
Laundries – Asset sales	*-*	*0.7*	*>(100)*
Corporate – PP&E and IT systems	*(3.8)*	*(2.0)*	*(90.0)*
Other	*(0.1)*	*(0.6)*	*83.3*
Free Cash Flow before acquisitions	**43.7**	**7.7**	**>100**

[1] Information Technology

Operating cash flows increased by $35.4 million / 87% 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 $22.9 million reduction in the cash losses on the new Royal Adelaide Hospital contract ($18.1 million down from $41.0 million for the half year ended 31 December 2017).

Capital expenditure also decreased by $0.6 million reflecting continued improvement in capital expenditure control across both Facility Services and Laundries.

Balance Sheet

Key Balance Sheet Metrics	Dec 18 $m	Jun 18 $m	Change %
Current Assets	**491.3**	529.1	(7.1)
Non-Current Assets	**1,326.2**	1,347.0	(1.5)
- Goodwill	**744.8**	744.8	-
- PP&E and Other	**581.4**	602.2	(3.5)
Current Liabilities	**517.8**	521.1	0.6
Non-Current Liabilities	**945.4**	930.9	(1.6)
Net Current (Liabilites) / Assets	**(26.5)**	8.0	>(100)
Net Assets	**354.3**	424.1	(16.5)
Net Debt[1]	**701.7**	741.0	5.3

[1] Excludes deferred borrowing costs

Balance sheet movements were significantly impacted by the adoption of AASB 15 at 1 July 2018 resulting a reduction in net assets of $104.5 million through retained earnings (Refer Note 2 for further detail).

Debt Management and Liquidity

	Dec 18	Jun 18
Net Leverage Ratio[1]	**2.8x**	2.8x
Interest Cover Ratio[1]	**7.4x**	7.5x
Weighted Average Committed Debt Facility Maturity	**2.7 years**	3.2 years

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

Net debt decreased by $39.3 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 $1,052.7 million of which $782.7 million is drawn at 31 December 2018.

Reconciliation of Statutory Results to Operating Segments Results

Half year ended 31 December	2018 $m	2017 $m
Facility Services Revenue	1,340.3	1,404.0
Laundries Revenue	134.5	137.7
Inter-segment Revenue	(17.5)	(43.6)
Statutory Sales Revenue	**1,457.3**	**1,498.1**
Facility Services EBITDA	105.4	54.7
Laundries EBITDA	29.2	(11.0)
Unallocated Corporate Overheads EBITDA	(13.0)	(30.0)
Statutory EBITDA	**121.6**	**13.7**
Facility Services Depreciation	(12.3)	(25.7)
Laundries Depreciation	(21.3)	(23.5)
Unallocated Corporate Overheads Depreciation	(3.3)	(3.2)
Statutory Depreciation	**(36.9)**	**(52.4)**
Facility Services EBITA	93.1	29.0
Laundries EBITA	7.9	(34.5)
Unallocated Corporate Overheads EBITA	(16.3)	(33.2)
Statutory EBITA	**84.7**	**(38.7)**

Outlook

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

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

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

Defined Terms

Spotless' Financial Statements for the half year ended 31 December 2018 have been prepared in accordance with Australian Accounting Standards.

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

Non-IFRS measures have not been subject to audit or review.

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).

SPOTLESS GROUP HOLDINGS LIMITED

ABN 27 154 229 562
HALF YEAR FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
31 DECEMBER 2018

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Directors' Report

The Directors hereby present their report for the half year ended 31 December 2018. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The names of Directors of Spotless Group Holdings Limited during the entire half year and up to the date of this report, unless otherwise stated were:

Professor John Humphrey
Peter Tompkins (Appointed Chief Executive Officer and Managing Director 16 October 2018)
Simon McKeon AO
Grant Thorne
Michael Ferguson
Grant Fenn
Dana Nelson (Retired as Chief Executive Officer and Managing Director 15 October 2018)

Principal activities

The principal activities of Spotless Group Holdings Limited and its subsidiaries (the "Group" or "Spotless") during the half year ended 31 December 2018 were the provision of outsourced facility services, laundry and linen services, technical and engineering services, maintenance and asset management services and refrigeration solutions to various industries in Australia and New Zealand.

Operating and financial review

1. Business overview

Spotless is a market leading provider of outsourced facility services and laundry and linen services in Australia and New Zealand. Within the market it serves, Spotless is the leader by revenue, scale and breadth of services. Spotless employs more than 36,000 people comprised of full-time, part-time and casual employees, making Spotless one of Australia's and New Zealand's largest employers.

Spotless provides a broad range of facility services, which include facility management, catering and food and cleaning services, as well as laundry and linen services, such as industrial laundering and linen and uniform rental. Spotless provides these services to a diverse customer base that includes governmental departments, agencies and authorities at the federal, state and municipal level, large global and domestic corporations and medium sized domestic corporations across Australia and New Zealand.

Spotless offers its customers an integrated multi-service offering with a single point of contact under a range of contractual models that deliver customers their desired level of services required for the successful operation of their facility.

Spotless' main services are:

- *Facility Services*

- Facility Management, which includes property management, maintenance and mechanical services, heating, refrigeration and air-conditioning services, grounds management, security and fire services, waste management, end-to-end essential maintenance and inspection services in electricity distribution, and the delivery of a range of other facility services;

Directors' Report (continued)

Operating and financial review (continued)

1. Business overview (continued)

- Catering and Food, including services such as operating canteens, dining halls and restaurants, personal meal delivery, specialised food preparation and delivery, management of food and beverage facilities and event catering services; and

- Cleaning, which includes general facility cleaning, specialist industrial and sterile cleaning and washroom services.

- *Laundry and Linen Services*

- Laundry and Linen, which includes the rental, cleaning, collection, delivery and stock management of linen, uniforms and specialised workwear.

2. Review of operations

A detailed review of the Group's operations, the results of those operations during the half year ended 31 December 2018, and likely future developments are given on Pages 1 to 5. The Review of Operations has been incorporated into, and forms part of, this Directors' Report.

Significant changes in state of affairs

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

Significant events subsequent to balance date

There has not been any matter or circumstance that has arisen since the end of the financial period 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.

Dividends

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

Auditor's independence declaration

The auditor's independence declaration is included on page 34.

Rounding

Spotless Group Holdings Limited is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 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.

On behalf of the Board of Directors

J Humphrey
Chairman
Melbourne, 7 February 2019

P Tompkins
Chief Executive Officer & Managing Director
Melbourne, 7 February 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half year ended 31 December 2018

		Half year ended	
		31 Dec 2018	31 Dec 2017
Continuing Operations	Note	$m	$m
Revenue	5	**1,457.3**	1,498.1
		1,457.3	1,498.1
Direct employee expenses		**(530.5)**	(550.2)
Subcontractor expenses		**(450.2)**	(508.3)
Cost of goods used		**(224.6)**	(245.4)
Occupancy costs		**(12.9)**	(15.1)
Catering rights		**(25.8)**	(26.7)
Other expenses		**(91.7)**	(138.7)
Profit before depreciation, amortisation, finance costs and income tax (EBITDA)		**121.6**	13.7
Depreciation and amortisation expense		**(44.8)**	(60.3)
Profit / (loss) before finance costs and income tax (EBIT)		**76.8**	(46.6)
Finance expense	7	**(20.7)**	(20.6)
Finance income	7	**0.4**	0.2
Profit / (loss) before income tax		**56.5**	(67.0)
Income tax (expense) / benefit		**(17.5)**	27.4
Profit / (loss) for the half year after tax		**39.0**	(39.6)
Other Comprehensive Income			
Items to be reclassified to profit or loss in subsequent periods:			
Foreign currency translation differences for foreign operations		**(3.8)**	4.5
Effective portion of changes in fair value of cash flow hedges		**(0.7)**	1.3
Income tax on effective portion of changes in fair value of cash flow hedges		**0.2**	(0.4)
Other comprehensive income / (loss) for the half year, net of income tax		**(4.3)**	5.4
Total comprehensive income / (loss) for the half year		**34.7**	(34.2)
Total comprehensive income / (loss) attributable to equity holders of the parent entity		**34.7**	(34.2)

	Half year ended	
	31 Dec 2018	31 Dec 2017
Earnings Per Share	cents	cents
Basic earnings / (losses) per share	**3.5**	(3.6)
Diluted earnings / (losses) per share	**3.5**	(3.6)

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

Condensed Consolidated Statement of Financial Position
as at 31 December 2018

		As At	
		31 Dec 2018	30 Jun 2018
Current assets	Note	$m	$m
Cash and cash equivalents		**94.5**	91.2
Trade and other receivables	8	**353.3**	395.1
Inventories		**29.7**	29.4
Prepayments		**13.8**	13.3
Other		**-**	0.1
Total current assets		**491.3**	529.1
Non-current assets			
Investments accounted for using the equity method		**1.6**	1.5
Trade and other receivables		**44.9**	89.8
Property, plant and equipment		**269.0**	269.3
Goodwill	15	**744.8**	744.8
Intangible assets		**114.6**	122.6
Deferred tax assets		**137.9**	103.5
Other		**13.4**	15.5
Total non-current assets		**1,326.2**	1,347.0
Total assets		**1,817.5**	1,876.1
Current liabilities			
Trade and other payables	9	**380.1**	407.2
Borrowings		**1.5**	3.6
Current tax liabilities		**8.9**	4.5
Provisions		**126.6**	105.5
Derivatives at fair value		**0.7**	0.3
Total current liabilities		**517.8**	521.1
Non-current liabilities			
Borrowings		**790.2**	823.0
Deferred tax liabilities		**46.9**	47.8
Provisions		**102.5**	59.0
Derivatives at fair value		**0.3**	0.1
Other		**5.5**	1.0
Total non-current liabilities		**945.4**	930.9
Total liabilities		**1,463.2**	1,452.0
Net assets		**354.3**	424.1
Equity			
Issued capital		**993.8**	993.8
Reserves		**4.6**	8.9
Accumulated losses		**(644.1)**	(578.6)
Total equity		**354.3**	424.1

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

Condensed Consolidated Statement of Changes in Equity for the half year ended 31 December 2018

	Attributable to equity holders of the parent						
$m	**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 half year	-	-	-	-	-	(39.6)	(39.6)
Other comprehensive income							
Currency translation differences	-	4.5	-	-	-	-	4.5
Movement in cash flow hedges	-	-	1.3	-	-	-	1.3
Tax effect of movements	-	-	(0.4)	-	-	-	(0.4)
Total other comprehensive income	-	4.5	0.9	-	-	-	5.4
Total comprehensive income/(loss)	-	4.5	0.9	-	-	(39.6)	(34.2)
Dividends paid	-	-	-	-	-	-	-
Recognition of share based payments	-	-	-	-	-	-	-
At 31 December 2017	**993.8**	**(3.3)**	**(0.7)**	**(0.6)**	**13.3**	**(615.9)**	**386.6**
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 half year	-	-	-	-	-	39.0	39.0
Other comprehensive income							
Currency translation differences	-	(3.8)	-	-	-	-	(3.8)
Movement in cash flow hedges	-	-	(0.7)	-	-	-	(0.7)
Tax effect of movements	-	-	0.2	-	-	-	0.2
Total other comprehensive income	-	(3.8)	(0.5)	-	-	-	(4.3)
Total comprehensive income/(loss)	-	(3.8)	(0.5)	-	-	39.0	34.7
At 31 December 2018 (i)	**993.8**	**(7.4)**	**(0.7)**	**(0.6)**	**13.3**	**(644.1)**	**354.3**

(i) Total number of fully paid ordinary shares on issue at 31 December 2018 was 1,102,239,882 (30 June 2018: 1,102,239,882).

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

Condensed Consolidated Cash Flow Statement
for the half year ended 31 December 2018

		Inflows/(Outflows)	
		Half year ended	
	Note	31 Dec 2018 $m	31 Dec 2017 $m
Cash flows from operating activities			
Receipts from customers		**1,633.3**	1,701.5
Payments to suppliers and employees		**(1,540.0)**	(1,639.0)
Interest received		**0.4**	0.2
Interest and other costs of finance paid		**(14.7)**	(16.4)
Income tax paid		**(3.1)**	(5.8)
Net cash provided by operating activities		**75.9**	40.5
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1.0**	1.4
Payment for property, plant, equipment and capitalised contract costs		**(33.2)**	(38.7)
Recovery of / (payment for) acquisition of businesses		**1.7**	(20.0)
Proceeds from the sale of assets		**-**	4.5
Net cash used in investing activities		**(30.5)**	(52.8)
Cash flows from financing activities			
Proceeds from borrowings		**60.0**	105.0
Repayment of borrowings		**(100.0)**	(75.0)
Payment of finance lease liabilities		**(2.3)**	(4.5)
Dividends paid to members of the parent entity		**-**	-
Net cash provided by / (used) in financing activities		**(42.3)**	**25.5**
Net increase in cash and cash equivalents		**3.1**	13.2
Cash and cash equivalents at the beginning of the half year		**91.2**	66.0
Effects of exchange rate changes on the balance of cash held in foreign currencies		**0.2**	(0.3)
Cash and cash equivalents at the end of the half year		**94.5**	78.9

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

1. Statement of Compliance

These condensed consolidated financial statements of Spotless Group Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group" or "Spotless") for the half year ended 31 December 2018 have been prepared in accordance with AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The half year financial statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2018. The half year financial statements were authorised for issue by the Directors on 7 February 2019.

2. Basis of Preparation

The half year financial statements have been prepared on a 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.

The accounting policies adopted in the preparation of the half year financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2018 with the exception of the adoption of new accounting standards as detailed in 2(a) below.

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.

a) New and amended accounting standards adopted by the Group

Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements for the year ended 30 June 2018. The changes in accounting policies will also be reflected in the Group's consolidated financial statements for the year ending 30 June 2019.

(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 31 December 2017 has not been restated and it is presented, as previously reported, under AASB 118, AASB 111 and related interpretations.

2. Basis of Preparation (continued)

a) 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 condensed interim consolidated statement of financial position

$m	As reported 30 June 2018	AASB 15 Transition Adjustments	Opening Balance 1 July 2018
Trade and other receivables	395.1	(14.6)	380.5
Total current assets	529.1	(14.6)	**514.5**
Trade and other receivables	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)**

2. Basis of Preparation (continued)

a) 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 has 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 (eg 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.

2. Basis of Preparation (continued)

a) New and amended accounting standards adopted by the Group (continued)

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

Impact on the condensed interim consolidated statement of profit or loss

The following tables summarise the impact of adoption of AASB 15 on Group's Condensed Consolidated Statement of Financial Position and Condensed 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.

31 December 2018	As reported $m	Adjustments $m	Without adoption of AASB 15 $m
Trade and other receivables	353.3	24.5	377.8
Total current assets	**491.3**	24.5	**515.8**
Trade and other receivables	44.9	56.7	101.6
Deferred tax assets	137.9	(44.5)	93.4
Total non-current assets	**1,326.2**	12.2	**1,338.4**
Total assets	**1,817.5**	36.7	**1,854.2**
Provisions	(126.6)	21.6	(105.0)
Total current liabilities	**(517.8)**	21.6	**(496.2)**
Provisions	(102.5)	45.5	(57.0)
Total non-current liabilities	**(945.4)**	45.5	**(899.9)**
Total liabilities	**(1,463.2)**	67.1	**(1,396.1)**
Net assets	**354.3**	103.8	**458.1**
Retained earnings	(644.1)	103.8	(540.3)
Total equity	**354.3**	103.8	**458.1**

For the six months ended 31 December 2018	As reported $m	Adjustments $m	Without adoption of AASB 15 $m
Revenue from ordinary activities	1,457.3	(1.0)	1,456.3
Total expenses	(1,380.5)	-	(1,380.5)
Earnings before interest and tax	76.8	(1.0)	75.8
Net finance costs	(20.3)	-	(20.3)
Profit before income tax	56.5	(1.0)	55.5
Income tax expense	(17.5)	0.3	(17.2)
Profit after income tax	39.0	(0.7)	38.3
Net other comprehensive loss	(4.3)	-	(4.3)
Profit for the period	34.7	(0.7)	34.0

There has been no material impact on other comprehensive income and consolidated statement of cash flow on transition to AASB 15.

2. Basis of Preparation (continued)

b) Accounting policies applied from 1 July 2018

(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.

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 AASB120 Accounting for Government grants and disclosure of Government assistance.

2. Basis of Preparation (continued)

b) 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	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. 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. 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.
Contract costs (Tender costs)	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.
Performance obligations and contract duration	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. 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. 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. 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.
Measure of progress	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.

2. Basis of Preparation (continued)

b) Accounting policies applied from 1 July 2018 (continued)

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

	Description
Variable consideration	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 only when it is highly probable that a reversal of that revenue will not occur. 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.
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 related 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).

2. Basis of Preparation (continued)

b) 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.

c) 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.

(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 recognition exceptions available for short term (less than 12 months) and low value leases. Lessor accounting remains similar to the current standard. AASB 16 applies to annual reporting periods beginning on or after 1 July 2019.

The Group manages its owned and leased assets to ensure there is an appropriate level of equipment to meet its current obligations 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.

As at 31 December 2018, Management has reviewed the current lease related business processes, controls, governance and the future state requirements. Analysis on the existing lease databases (systems or documents) was performed and, with the lease contract data fields, serving as a basis for the design of the lease system implementation. Detailed contract reviews across the divisions are ongoing to conclude whether contracts contain or should be accounted for as a lease under AASB 16. Moreover, the lease data enrichment process has commenced while the quantification of the likely impact of AASB 16 for existing or known lease contracts (currently disclosed as operating lease commitments) is currently ongoing.

2. Basis of Preparation (continued)

c) New accounting standards and interpretations not yet adopted (continued)

(i) AASB 16 'Leases' (continued)

As a result, the Group has not yet quantified the effect of the new standard, however, the following impacts are expected on implementation date:

- Total assets and total liabilities will increase, due to the recognition of a "Right of Use Asset" and a "Lease Liability" grossing up the assets and liabilities in the Statement of Financial position;
- Interest expense will increase due to the effective interest rate implicit in the lease, where the interest expense component is higher on early years on the lease;
- Depreciation charge will increase as the right of use assets is recognised;
- Management will no longer recognise provisions for operating leases assessed to be onerous and will instead, include the payments due under the lease in its lease liability and assess the right of use assets for impairment;
- Operating cash flows will be higher as repayment of the principle portion of all lease liabilities will be classified as financing activities.

AASB 16 must be implemented retrospectively, either with the restatement of comparatives or, under the modified retrospective approach, with the cumulative impact of initial application recognised as an adjustment to opening retained earnings as at 1 July 2019.

Under the modified retrospective approach, on a lease-by-lease basis, the right of use of an asset may be deemed to be equivalent to the liability at transition or calculated retrospectively as at inception of the lease.

The Group is in the process of assessing available options for transition.

Other

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.

3. 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 are as follows:

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. Revenue recognised is based on stage of completion using costs incurred. In recognising the revenue, the Group periodically re-forecasts the estimated total contract costs based on the different stage of completion of the contract.

Impairment of goodwill and intangibles

Determining whether goodwill, non-financial assets and intangibles are impaired requires an estimation of the recoverable amount of the asset, or cash-generating unit ("CGU") to which it has been allocated. 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.

Onerous contracts provisioning

The Group has recognised provisions for various contracts assessed as being onerous or loss making 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.

Property make-good provisioning

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.

Environmental provisioning

The Group intends to restore and remediate certain properties. The provision for remediation is based on assessments by management supported by external advisors. As remediation progresses, actual costs are monitored against the estimated provisions made.

3. Critical Accounting Estimates (continued)

Taxation

The Australian tax consolidated group has recognised a $29.8 million (30 June 2018: $32.5 million) deferred tax asset at 31 December 2018 in respect of income tax losses. These losses continue to be carried on the Condensed Consolidated Statement of Financial Position as the Directors believe it is probable, based on current forecasts, 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.

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, when it is considered probable that an unfavourable outcome will result from 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.

Useful lives of acquired customer contracts

Customer contracts are carried on the Condensed Consolidated 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.

Long service leave provisioning

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.

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

The estimation of the useful lives and residual of values of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment and leasehold improvements) and turnover policies. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives and residual values are made when considered necessary.

4. Operating Segments

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

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

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

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

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

$m	Facility Services	Laundries	Corporate / eliminations	Group
Half year ended 31 Dec 2018				
Sales Revenue	1,340.3	134.5	(17.5)	**1,457.3**
EBITDA	105.4	29.2	(13.0)	**121.6**
Depreciation	(12.3)	(21.3)	(3.3)	**(36.9)**
Amortisation	-	-	(7.9)	**(7.9)**
EBIT	93.1	7.9	(24.2)	**76.8**
Net finance costs	-	-	(20.3)	**(20.3)**
Profit / (Loss) before income tax	93.1	7.9	(44.5)	**56.5**
Income tax expense	-	-	(17.5)	**(17.5)**
Profit / (Loss) for the half year	**93.1**	**7.9**	**(62.0)**	**39.0**
Half year ended 31 Dec 2017				
Sales Revenue	1,404.0	137.7	(43.6)	**1,498.1**
EBITDA	54.7	(11.0)	(30.0)	**13.7**
Depreciation	(25.7)	(23.5)	(3.2)	**(52.4)**
Amortisation	-	-	(7.9)	**(7.9)**
EBIT	29.0	(34.5)	(41.1)	**(46.6)**
Net finance costs	-	-	(20.4)	**(20.4)**
Profit / (Loss) before income tax	29.0	(34.5)	(61.5)	**(67.0)**
Income tax benefit	-	-	27.4	**27.4**
Profit / (Loss) for the half year	**29.0**	**(34.5)**	**(34.1)**	**(39.6)**

5. Revenue

Disaggregation of revenue from contracts with customers

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

a) Revenue by geographical locations

$m	Facility Services	Laundries	Corporate / eliminations	Group
Half year ended 31 Dec 2018				
Sales Revenue				
Australia	1,196.2	107.8	(15.4)	**1,288.6**
New Zealand	144.1	26.7	(2.1)	**168.7**
Total revenue and other income	**1,340.3**	**134.5**	**(17.5)**	**1,457.3**
Half year ended 31 Dec 2017				
Sales Revenue				
Australia	1,237.0	111.3	(37.9)	**1,310.4**
New Zealand	167.0	26.4	(5.7)	**187.7**
Total revenue and other income	**1,404.0**	**137.7**	**(43.6)**	**1,498.1**

b) Timing of revenue recognition

$m	Facility Services	Laundries	Corporate / eliminations	Group
Half year ended 31 Dec 2018				
Sales Revenue				
Products transferred at a point in time	104.0	-	-	**104.0**
Products and services transferred over time	1,236.3	134.5	(17.5)	**1,353.3**
Total revenue and other income	**1,340.3**	**134.5**	**(17.5)**	**1,457.3**
Half year ended 31 Dec 2017				
Sales Revenue				
Products transferred at a point in time	145.9	-	-	**145.9**
Products and services transferred over time	1,258.1	137.7	(43.6)	**1,352.2**
Total revenue and other income	**1,404.0**	**137.7**	**(43.6)**	**1,498.1**

6. Individually Significant Items

The Group did not incur any individually significant items for the half year ended 31 December 2018.

The following material items are included within the comparative period (31 December 2017) of the Condensed 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	Income tax expense $m	Profit after income tax $m
Half year ended 31 Dec 2017				
Contract rationalisation costs (i)	5.4	1.7	(2.0)	**5.1**
Goodwill impairment	40.0	-	-	**40.0**
Management redundancies and integration costs (ii)	3.1	-	(0.9)	**2.2**
Other balance sheet adjustments (iii)	60.8	8.7	(40.1)	**29.4**
Total individually significant items	109.3	10.4	(43.0)	**76.7**

(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) Management redundancies and integration costs as a result of the Downer takeover.

(iii) 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.

	Half year ended	
7. Net Finance Costs	**31 Dec 2018 $m**	**31 Dec 2017 $m**
Interest Expense		
Interest charged from third party entities	**(17.0)**	(18.7)
Other borrowing costs	**(1.0)**	(0.8)
Unwinding of discount on provisions	**(2.7)**	(1.1)
	(20.7)	(20.6)
Interest Income		
Third party entities	**0.4**	0.2
	0.4	0.2
Net Finance Costs	**(20.3)**	(20.4)

8. Trade and Other Receivables

	Half year ended	
	31 Dec 2018	31 Dec 2017
	$m	$m
Current		
Trade receivables	**18.2**	13.1
Allowance for doubtful debts	**(1.4)**	(1.6)
	16.8	11.5
Contract debtors (a)	**317.4**	375.5
Other receivables	**19.1**	8.2
	353.3	395.1
Non Current		
Trade receivables	**5.4**	87.7
Contract debtors (a)	**39.5**	2.1
Other receivables	**-**	-
	44.9	89.8

a) Contract Balances

	31 Dec 2018 $m	31 Dec 2017 $m
Contract receivables	**164.3**	190.4
Contract assets	**150.7**	182.3
Retentions and capitalised costs to fulfill contracts	**2.4**	2.8
Current contract debtors	**317.4**	375.5
Non current contract assets	**39.5**	2.1
Total contract debtors	**356.9**	377.6
Total contract debtors	**356.9**	377.6
Total contract liabilities (Note 9)	**13.5**	29.0
Net amount	**343.4**	348.7

9. Trade and Other Payables

	Half year ended	
	31 Dec 2018	31 Dec 2017
	$m	$m
Current		
Trade payables	**187.8**	183.2
Contract liabilities	**13.5**	29.0
Accruals	**120.4**	142.9
Other	**58.5**	52.2
	380.1	407.2

10. Dividends

The Directors have determined not to pay an interim dividend for the half year ended 31 December 2018.

11. Changes in the Composition of the Group

There were no material changes to the composition of the Group during the period.

12. Commitments and Contingencies

	As at 31 Dec 2018 $m	As at 30 Jun 2018 $m
a) Commitments		
Legal proceedings (i)	**-**	-
Catering rights	**103.0**	120.7
Bank guarantees, insurance bonds and letters of credit (ii)	**153.4**	146.9

b) Contingencies

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 31 December 2018 in respect of the representative proceeding.

Other than the above, the Group does not have any material contingent liabilities in respect of legal proceedings as at 31 December 2018 (31 December 2017: nil). A number of legal claims exist where the outcome is uncertain. Where practicable, provision has been made in the financial statements to recognise the estimated cost to settle the claims based on best estimate assumptions and legal advice where relevant. The actual amounts settled in relation to the outstanding matters may differ to those estimated.

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

12. Commitments and Contingencies (continued)

b) Contingencies (continued)

Spotless Facilities Management Subcontract – new Royal Adelaide Hospital

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

Spotless has previously announced that the Subcontract is a cash negative underperforming contract and that Spotless is working to resolve various commercial and operational issues which include significant preliminary claims and counter claims (including the application of some abatements, which are disputed by Spotless). The Process Suspension Deed signed by the parties in June 2018 has expired however discussions between Spotless, Celsus and the South Australian Government are ongoing. The mediation process that commenced in June 2018 is continuing and the parties are engaging in discussions to address the various commercial and operational issues affecting the delivery of services at the nRAH.

In the event that Spotless is not successful in either reaching agreement as part of the discussions or via the dispute resolution process then Spotless is likely to incur operating losses up until September 2022, being the 5 year anniversary of the Subcontract term, at which point Spotless has the ability to trigger a re-pricing process. In this scenario, Management has recorded a provision for the present value of the future losses of $67.1 million as at 31 December 2018, excluding abatements that are disputed by Spotless which the company does not consider to be probable.

Other Contingent Liabilities

The Group has entered long term contracts with customers that specify performance hurdles relating to the delivery of contracted services. These types of contracts are entered into in the normal course of business and where the relevant performance hurdles are not met, abatements may be payable. Abatement claims are accounted for in accordance with the Group's accounting policy for variable consideration whereby revenue is recorded to the extent it is highly probable that amounts subject to variability will be achieved. Where the liability for abatement claims is uncertain as at the date of this report, a contingent liability may exist for amounts that ultimately become payable.

13. Fair Value

The carrying amount of financial assets or liabilities recognised in the financial statements approximate their fair value, on the basis that they are short-term in nature and subject to variable interest rates where applicable. The fair value of derivative financial instruments is estimated using Level 2 inputs that are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

14. Borrowings

Borrowings comprise interest bearing liabilities recorded at amortised cost, net of borrowing costs that are held to maturity. As at 31 December 2018, the Group has total committed facilities of $1,052.7 million (30 June 2018: $1,047.6 million), of which $782.7 million is drawn (30 June 2018: $817.6 million).

	As at 31 Dec 2018 $m	As at 30 Jun 2018 $m
Unsecured multi-option facility, effective May 2018, structured as one A$280 million and two NZ$75 million terminating in May 2021; and a $A280 million and a $A200 million terminating May 2022 (Syndicated Facility Agreement).		
Amount drawn	**702.7**	717.6
Amount undrawn	**200.0**	180.0
Unsecured cash advance facilities, structured as two $A50 million single currency revolving cash advance facilities, commencing May 2018 and terminating May 2020 (Bilateral Facility Agreement).		
Amount drawn	**30.0**	50.0
Amount undrawn	**70.0**	50.0
Unsecured term loan, structured as one $A50 million facility, commencing March 2018 and terminating March 2021 (Facility Agreement).		
Amount drawn	**50.0**	50.0
Amount undrawn	**-**	-
Total Financing Facilities	**1,052.7**	1,047.6

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

15. Goodwill	As at 31 Dec 2018 $m	As at 30 Jun 2018 $m
Balance at the beginning of the period	**744.8**	753.4
Acquired in a business combination	**-**	31.4
Impairment loss	**-**	(40.0)
Balance at the end of the period	**744.8**	744.8

(a) 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:

	As at 31 Dec 2018 $m	As at 30 Jun 2018 $m
Facility Services	**676.6**	676.6
Laundries	**68.2**	68.2
Balance at the end of the period	**744.8**	744.8

(b) 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.

Management has concluded that no impairment indicators exist for either the Facility Services CGU or the Laundries CGU at 31 December 2018, hence an impairment test was not required.

16. Subsequent Events

There has not been any matter or circumstance that has arisen since the end of the financial period 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 review of Spotless Group Holdings Limited for the half-year ended 31 December 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

James Dent
Partner

Melbourne
7 February 2019

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Directors' Declaration

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

(a) the financial statements and notes of Spotless Group Holdings Limited for the half year ended 31 December 2018 are in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and

ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001;* and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

On behalf of the Board of Directors

J Humphrey
Chairman
Melbourne, 7 February 2019

P Tompkins
Chief Executive Officer & Managing Director
Melbourne, 7 February 2019

Independent Auditor's Review Report

To the shareholders of Spotless Group Holdings Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Spotless Holdings Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Spotless Group Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001.*

The ***Half-year Financial Report*** comprises:

- Condensed consolidated statement of financial position as at 31 December 2018;
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated cash flow statement for the Half-year ended on that date;
- Notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Spotless Group Holdings Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001; and*
- for such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

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Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Spotless Group Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

James Dent
Partner

Melbourne
7 February 2019