

Spotless Group Holdings Limited

Appendix 4D

Half year report for the period ended 31 December 2017

| | |
|--|--|
| Name of entity Spotless Group Holdings Limited | Current Period Period ended 31 December 2017 |
| ABN 27 154 229 562 | Prior Corresponding Period Period ended 31 December 2016 |

| Results for announcement to the market | % Movement compared to the prior period | Current Period A\$ |
|--|---|----------------------|
| Revenue from ordinary activities | Up 2.9% | to \$1,498.1 million |
| Reported net loss from ordinary activities after tax | Up 88.9% | to \$(39.6) million |
| Reported net loss attributable to members | Up 88.9% | to \$(39.6) million |

| Dividends | Interim Dividend 2018 | Interim Dividend 2017 |
|------------------|-----------------------|-----------------------|
| Amount per share | Nil | 1.35 c |
| Franked amount | Nil | Nil |

Fiscal 2018 interim dividend dates

| | |
|--------------|-----|
| Record date | N/A |
| Payment date | N/A |

| Ratios | 31 December 2017 | 31 December 2016 |
|---|------------------|------------------|
| Net tangible assets backing per share (cents) | -44.5 c | -42.8 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
Michael Sharp
Group Head of Corporate Affairs and Investor Relations
M +61 439 470 145

Spotless Group Holdings Limited

RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017

- Sales Revenue of \$1,498.1m, up 2.9% from the prior corresponding period, reflecting full period revenue from newly mobilised Public Private Partnerships ("PPPs") contracts, partially offset by prior period lost contracts and scope reductions.
- EBITDA of \$13.7m, significantly impacted by \$109.3m of individually significant items relating to goodwill impairment (\$40.0m), contract rationalisation and restructure costs (\$5.4m), management redundancies and integration costs (\$3.1m) attributable to the takeover by Downer EDI Limited ("Downer") and other balance sheet adjustments including the write-off of new Royal Adelaide Hospital work in progress ("WIP") and alignment with Downer accounting policies (\$60.8m).
- Loss after tax of \$(39.6)m includes \$76.7m of individually significant items (after tax) primarily relating to the goodwill impairment (\$40.0m), contract rationalisation and restructure costs (\$5.1m) and other balance sheet adjustments (\$29.4m).
- Operating cash flows of \$40.5m, impacted by \$13.1m of takeover costs, contract rationalisation and restructuring costs, underperformance of the new Royal Adelaide Hospital long term contract and management redundancy and integration costs, resulting in a 45.0% decline from the prior corresponding period.
- Net debt of \$803.0m has increased marginally from June 2017, whilst the net leverage ratio of 2.9x (based on last 12 months EBITDA and allowable adjustments for the purposes of debt covenant metrics) has remained stable with June 2017. The increase in net debt was due to payment of takeover costs, management redundancy and integration costs, acquisition of a new laundry in Victoria and underperformance of the new Royal Adelaide Hospital long term contract.
- The Directors have determined there will be no interim dividend for the half year ended 31 December 2017.

| Half Year Ended 31 December | 2017 \$m | 2016 \$m | Change % |
|------------------------------------|-------------|-------------|-------------|
| Sales Revenue | 1,498.1 | 1,455.4 | 2.9 |
| EBITDA | 13.7 | (298.6) | >100 |
| EBIT | (46.6) | (358.6) | 87.0 |
| Loss after tax | (39.6) | (358.1) | 88.9 |
| Basic losses per share (cents) | (3.6) | (32.6) | 88.9 |
| Interim dividend per share (cents) | - | 1.35 | - |
| Operating cash flow | 40.5 | 73.6 | (45.0) |
| Net debt | 803.0 | 848.1 | (5.3) |
| Net leverage ratio ¹ | 2.9x | 2.7x | 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 2017 were impacted by the following individually significant items:

Contract Rationalisation and Restructuring Costs

The continued execution of the previously announced Strategy Reset has resulted in a number of one-off costs to the business including contract exit costs, asset write-offs and redundancy costs totalling \$5.1m (after tax).

The rationalisation of these non-core contracts is nearing completion with further costs also expected to be incurred in the second half of financial year 2018.

Goodwill Impairment

A \$40.0m goodwill impairment charge has been recorded for the half year ended 31 December 2017 as a result of a deterioration in the operating results of the Laundries business since June 2017.

Management Redundancies and Integration Costs

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

Other Balance Sheet Items

These costs comprise the write-off of WIP in relation to the underperforming new Royal Adelaide Hospital contract, as well as the write-off of certain other minor balance sheet items to align Spotless' accounting policies with Downer's.

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

| Half year ended 31 December 2017 | EBITDA \$m | D&A ¹ \$m | EBIT \$m | Net interest expense \$m | Income tax ² \$m | NPAT ³ \$m |
|--|---------------|-------------------------|---------------|-----------------------------------|-----------------------------------|--------------------------|
| Underlying result | 123.0 | (49.9) | 73.1 | (20.4) | (15.6) | 37.1 |
| Contract rationalisation and restructuring costs | (5.4) | (1.7) | (7.1) | - | 2.0 | (5.1) |
| Goodwill impairment | (40.0) | - | (40.0) | - | - | (40.0) |
| Management redundancies and integration costs | (3.1) | - | (3.1) | - | 0.9 | (2.2) |
| Other balance sheet adjustments | (60.8) | (8.7) | (69.5) | - | 40.1 | (29.4) |
| Statutory result | 13.7 | (60.3) | (46.6) | (20.4) | 27.4 | (39.6) |

¹ Depreciation and amortisation expense

² Income tax (expense) / benefit

³ Net profit / (loss) after tax

Review of Operations (continued)

Statutory Results

Statutory sales revenue increased from December 2016 by \$42.7m (+2.9%) driven by the mobilisation of new PPP contracts and the full half impact of the 1H17 Nuvo acquisition, partially offset by prior period lost contracts and scope reductions, and the writeback of \$41.0m of revenue relating to the new Royal Adelaide Hospital contract (included in individually significant items).

EBITDA for the period has been significantly impacted by \$109.3m of individually significant items recorded as a result of the Downer takeover and contract rationalisation and restructuring. These items include:

- Contract rationalisation and restructuring costs \$5.4m;
- Laundries goodwill impairment \$40.0m;
- Management redundancies and integration costs \$3.1m; and
- Other balance sheet items (WIP write-offs and alignment with Downer policy) \$60.8m.

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

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

Operating Segments

Facility Services

| Half year ended 31 December | 2017 \$m | 2016 \$m | Change % |
|--|----------------|-------------|-------------|
| Facility Services Sales Revenue | 1,404.0 | 1,336.4 | 5.1 |
| Facility Services EBITDA | 54.7 | (194.7) | >100 |
| Depreciation | (25.7) | (22.6) | (13.7) |
| Facility Services EBITA | 29.0 | (217.3) | >100 |
| Facility Services EBITDA Margin | 3.9% | (14.6%) | |
| Facility Services EBITA Margin | 2.1% | (16.3%) | |

Revenue growth was driven by full period revenue from PPP contracts mobilised during FY17, higher volumes across mining camps, and increased responsive works and timing of planned activity works from Government-related contracts. The result also included the full half impact of the 1H17 acquisition of Nuvo. This growth was partially offset by a slowdown in AE Smith construction projects and lower volumes in utility support service contracts and the write-off of new Royal Adelaide Hospital work in progress.

Reported earnings exceeded the prior comparative period however, both periods were significantly impacted by individually significant items. Contract rationalisation costs, restructuring costs and other largely non-cash balance sheet adjustments totalling \$67.2m (write-off of new Royal Adelaide Hospital WIP and alignment with Downer's accounting policies), impacted 1H18 pre-tax earnings.

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

Review of Operations (continued)

Operating Segments (continued)

Laundries

| Half year ended 31 December | 2017 \$m | 2016 \$m | Change % |
|---------------------------------------|---------------|-------------|-------------|
| Laundries Sales Revenue | 137.7 | 144.2 | (4.5) |
| Laundries EBITDA | (11.0) | (74.1) | 85.2 |
| Depreciation (including rental stock) | (23.5) | (26.0) | 9.6 |
| Laundries EBITA | (34.5) | (100.1) | 65.5 |
| Laundries EBITDA Margin | (8.0%) | (51.4%) | |
| Laundries EBITA Margin | (25.1%) | (69.4%) | |

The Laundries segment experienced a challenging 1H18 with marginally lower volumes compared to the comparative period. The closure of a number of underperforming plants under the contract rationalisation program also contributed to the \$6.5m (-4.5%) decrease in revenue partially offset by the acquisition of a laundry facility in Victoria.

Reported EBITDA was affected by \$40.9m of individually significant items; \$40.0m of which related to additional goodwill impairment recorded as a result of the underperformance during the period.

Cash Flow

| Half year ended 31 December | 2017 \$m | 2016 \$m | Change % |
|---|-------------|-------------|---------------|
| Operating cash flow | 40.5 | 73.6 | (45.0) |
| Investing Activities | | | |
| Net investments for P,P&E, IT ¹ systems and capitalised contract costs | (32.8) | (41.9) | 21.7 |
| <i>Facility Services – P,P&E and capitalised contract costs</i> | (12.7) | (21.1) | 39.8 |
| <i>Facility Services – Asset sales</i> | 3.8 | - | - |
| <i>Laundries – P,P&E and capitalised contract costs</i> | (5.3) | (4.7) | (12.8) |
| <i>Laundries – Rental stock</i> | (16.7) | (16.2) | (3.1) |
| <i>Laundries – Asset sales</i> | 0.7 | - | - |
| <i>Corporate – P,P&E and IT systems</i> | (2.0) | (5.5) | 63.6 |
| <i>Other</i> | (0.6) | 5.6 | >(100) |
| Free Cash Flow before acquisitions | 7.7 | 31.7 | (75.7) |

¹ Information Technology

Operating cash flows reduced by \$33.1m from the prior period despite continued improvement in debtor cash collections. Payments in relation to takeover costs of \$13.1m (most of which were accrued for at June 2017), contract rationalisation and restructuring costs of \$8.1m and the impact of the new Royal Adelaide Hospital (\$41.0m) all significantly impacted operating cash flows for the period. Excluding the impact of these items, operating cash flows demonstrated strong growth over the prior period.

Total capital expenditure reduced by \$10.8m / 22.7% reflecting continued improvement in capital expenditure control across both Facility Services and Laundries.

Review of Operations (continued)

Balance Sheet

| Key Balance Sheet Metrics | Dec 17 \$m | Jun 17 \$m | Change % |
|---------------------------|---------------|---------------|-------------|
| Current Assets | 502.0 | 522.0 | (3.8) |
| Non-Current Assets | 1,363.3 | 1,390.0 | (1.9) |
| - Goodwill | 744.6 | 753.4 | (1.2) |
| - P,P&E and Other | 618.7 | 636.6 | (2.8) |
| Current Liabilities | 477.1 | 1,346.5 | (64.6) |
| Non-Current Liabilities | 1,001.6 | 144.7 | >100 |
| Net Current Assets | 24.9 | (824.5) | >100 |
| Net Assets | 386.6 | 420.8 | (8.1) |
| Net Debt | 803.0 | 782.3 | 2.6 |

Balance sheet movements were significantly impacted by the Laundries goodwill impairment, continued implementation of the contract rationalisation program, alignment with Downer accounting policies, the impact of the acquired laundry in Victoria and finalisation of the purchase accounting for the prior year Nuvo acquisition.

The decrease in current liabilities and consequential increase in non-current liabilities reflects the extension of maturity dates for tranche A of the Syndicated Facility Agreement and three cash advance bilateral facilities to ensure all debt facilities have maturity dates greater than 12 months at 31 December 2017. The Group also obtained a Review Event waiver from its lenders removing the unconditional right of the lenders to trigger a review of the Group's debt facility agreements should Downer acquire 90% or more of the issued share capital of Spotless and/or Spotless delists from the Australian Stock Exchange.

Debt Management and Liquidity

| | Dec 17 | Jun 17 |
|---|--------|--------|
| Net Leverage Ratio ¹ | 2.9x | 2.9x |
| Interest Cover Ratio ¹ | 7.3x | 7.3x |
| Weighted Average Committed Debt Facility Maturity | 1.7 | 1.9 |

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

Net debt increased by \$20.7m from June 2017 attributable to the acquisition of a new laundry in Victoria, the impact of the new Royal Adelaide Hospital mobilisation, payments in relation to takeover costs, contract rationalisation and restructuring costs, partially offset by no final dividend being declared and paid for FY17.

In comparison to December 2016, net debt declined \$45.1m reflective of:

- the investment and subsequent recovery of invested net working capital following the Group mobilising seven PPP contracts;
- improved cash collections;
- no final dividend declared or paid for FY17; and
- improved capital budgeting management.

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 \$1,039.1m of which \$854.1m is drawn at 31 December 2017.

Review of Operations (continued)

Reconciliation of Statutory Results to Operating Segments Results

| Half year ended 31 December | 2017 \$m | 2016 \$m |
|--|----------------|----------------|
| Facility Services Revenue | 1,404.0 | 1,336.4 |
| Laundries Revenue | 137.7 | 144.2 |
| Inter-segment Revenue | (43.6) | (25.2) |
| Statutory Sales Revenue | 1,498.1 | 1,455.4 |
| Facility Services EBITDA | 54.7 | (194.7) |
| Laundries EBITDA | (11.0) | (74.1) |
| Unallocated Corporate Overheads EBITDA | (30.0) | (29.8) |
| Statutory EBITDA | 13.7 | (298.6) |
| Facility Services Depreciation | (25.7) | (22.6) |
| Laundries Depreciation | (23.5) | (26.0) |
| Unallocated Corporate Overheads Depreciation | (3.2) | (2.5) |
| Statutory Depreciation | (52.4) | (51.1) |
| Facility Services EBITA | 29.0 | (217.3) |
| Laundries EBITA | (34.5) | (100.1) |
| Unallocated Corporate Overheads EBITA | (33.2) | (32.3) |
| Statutory EBITA | (38.7) | (349.7) |

Outlook

Spotless continues to target underlying net profit after tax and before amortisation of acquired intangible assets (NPATA) of \$93m, or underlying net profit after tax of \$85m, for the 2018 financial year.

Defined Terms

Spotless' Financial Statements for the half year ended 31 December 2017 have been prepared in accordance with Australian Accounting Standards.

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

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

SPOTLESS GROUP HOLDINGS LIMITED

ABN 27 154 229 562
HALF YEAR FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
31 DECEMBER 2017

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Directors' Report

The Directors hereby present their report for the half year ended 31 December 2017. 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 (appointed Director 19 July 2017 and appointed Chairman 24 August 2017)

Dana Nelson (appointed Chief Executive Officer and Managing Director 22 August 2017)

Simon McKeon AO

Grant Thorne (appointed 19 July 2017)

Michael Ferguson (appointed 19 July 2017)

Grant Fenn (appointed 1 December 2017)

Garry Hounsell (retired 31 August 2017)

Martin Sheppard (retired 22 August 2017)

Diane Grady AM (retired 19 July 2017)

The Hon. Nick Sherry (retired 19 July 2017)

Julie Coates (retired 19 July 2017)

Philip Garling (appointed 19 July 2017 and retired 1 December 2017)

Principal activities

The principal activities of Spotless Group Holdings Limited and its subsidiaries (the "Group" or "Spotless") during the half year ended 31 December 2017 were the provision of outsourced facility services, laundry and linen services, technical and engineering services, maintenance and asset management services and refrigeration solutions to various industries in Australia and New Zealand.

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 2017, and likely future developments are given on Pages 1 to 7. 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.

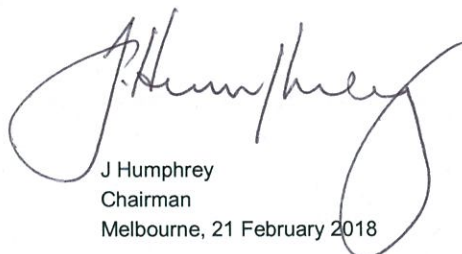
Auditor's independence declaration

The auditor's independence declaration is included on page 29.

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, 21 February 2018



D Nelson
Chief Executive Officer & Managing Director
Melbourne, 21 February 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half year ended 31 December 2017

| | | Half year ended | |
|--|------|-----------------|----------------|
| | | 31 Dec 2017 | 31 Dec 2016 |
| Continuing Operations | Note | \$m | \$m |
| Revenue | | 1,498.1 | 1,455.4 |
| | | 1,498.1 | 1,455.4 |
| Direct employee expenses | | (550.2) | (563.4) |
| Subcontractor expenses | | (508.3) | (422.9) |
| Cost of goods used | | (245.4) | (240.2) |
| Occupancy costs | | (15.1) | (11.1) |
| Catering rights | | (26.7) | (24.8) |
| Other expenses | | (138.7) | (491.6) |
| Profit / (Loss) before depreciation, amortisation, finance costs and income tax (EBITDA) | | 13.7 | (298.6) |
| Depreciation and amortisation expense | | (60.3) | (60.0) |
| Loss before finance costs and income tax (EBIT) | | (46.6) | (358.6) |
| Finance expense | 7 | (20.6) | (20.5) |
| Finance income | 7 | 0.2 | 0.3 |
| Loss before income tax | | (67.0) | (378.8) |
| Income tax benefit | | 27.4 | 20.7 |
| Loss for the half year after tax | | (39.6) | (358.1) |
| Other Comprehensive Income | | | |
| <i>Items to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Foreign currency translation differences for foreign operations | | 4.5 | (1.1) |
| Effective portion of changes in fair value of cash flow hedges | | 1.3 | 2.3 |
| Income tax on effective portion of changes in fair value of cash flow hedges | | (0.4) | (0.7) |
| Other comprehensive income for the half year, net of income tax | | 5.4 | 0.5 |
| Total comprehensive loss for the half year | | (34.2) | (357.6) |
| Total comprehensive loss attributable to equity holders of the parent entity | | (34.2) | (357.6) |

| | Half year ended | |
|---------------------------|-----------------|--------------|
| | 31 Dec 2017 | 31 Dec 2016 |
| Earnings Per Share | cents | cents |
| Basic losses per share | (3.6) | (32.6) |
| Diluted losses per share | (3.6) | (32.6) |

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

Condensed Consolidated Statement of Financial Position as at 31 December 2017

| | Note | As At | |
|---|------|----------------|----------------|
| | | 31 Dec 2017 | 30 Jun 2017 |
| | | \$m | \$m |
| Current assets | | | |
| Cash and cash equivalents | | 78.9 | 66.0 |
| Trade and other receivables | | 374.8 | 412.7 |
| Inventories | | 31.1 | 32.0 |
| Prepayments | | 14.4 | 11.3 |
| Current tax assets | | 2.8 | - |
| Total current assets | | 502.0 | 522.0 |
| Non-current assets | | | |
| Investments accounted for using the equity method | | 1.5 | 1.8 |
| Trade and other receivables | | 69.4 | 78.2 |
| Property, plant and equipment | | 282.4 | 281.2 |
| Goodwill | 14 | 744.6 | 753.4 |
| Intangible assets | | 130.5 | 132.9 |
| Deferred tax assets | | 116.2 | 112.8 |
| Other | | 18.7 | 29.7 |
| Total non-current assets | | 1,363.3 | 1,390.0 |
| Total assets | | 1,865.3 | 1,912.0 |
| Current liabilities | | | |
| Trade and other payables | | 354.6 | 381.9 |
| Borrowings | | 9.5 | 835.5 |
| Current tax liabilities | | - | 7.2 |
| Provisions | | 111.9 | 119.6 |
| Derivatives at fair value | | 1.1 | 2.3 |
| Total current liabilities | | 477.1 | 1,346.5 |
| Non-current liabilities | | | |
| Borrowings | | 872.4 | 12.8 |
| Deferred tax liabilities | | 52.8 | 75.7 |
| Provisions | | 64.8 | 44.5 |
| Other | | 11.6 | 11.7 |
| Total non-current liabilities | | 1,001.6 | 144.7 |
| Total liabilities | | 1,478.7 | 1,491.2 |
| Net assets | | 386.6 | 420.8 |
| Equity | | | |
| Issued capital | | 993.8 | 993.8 |
| Reserves | | 8.7 | 3.3 |
| Accumulated losses | | (615.9) | (576.3) |
| Total equity | | 386.6 | 420.8 |

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 2017

| | 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 2016 | 993.8 | (7.9) | (5.7) | (0.6) | 6.9 | (159.2) | 827.3 |
| Loss for the half year | - | - | - | - | - | (358.1) | (358.1) |
| <i>Other comprehensive income</i> | | | | | | | |
| Currency translation differences | - | (1.1) | - | - | - | - | (1.1) |
| Movement in cash flow hedges | - | - | 2.3 | - | - | - | 2.3 |
| Tax effect of movements | - | - | (0.7) | - | - | - | (0.7) |
| Total other comprehensive income/(loss) | - | (1.1) | 1.6 | - | - | - | 0.5 |
| Total comprehensive income/(loss) | - | (1.1) | 1.6 | - | - | (358.1) | (357.6) |
| Dividends paid | - | - | - | - | - | (54.9) | (54.9) |
| Recognition of share based payments | - | - | - | - | 0.5 | - | 0.5 |
| At 31 December 2016 | 993.8 | (9.0) | (4.1) | (0.6) | 7.4 | (572.2) | 415.3 |
| 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) |
| <i>Other comprehensive income</i> | | | | | | | |
| 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) |
| At 31 December 2017 (i) | 993.8 | (3.3) | (0.7) | (0.6) | 13.3 | (615.9) | 386.6 |

(i) Total number of fully paid ordinary shares on issue at 31 December 2017 was 1,098,403,963 (30 June 2017: 1,098,403,963).

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

**Condensed Consolidated Cash Flow Statement
for the half year ended 31 December 2017**

| | Note | Inflows/(Outflows) | |
|--|------|--------------------|--------------------|
| | | Half year ended | |
| | | 31 Dec 2017 \$m | 31 Dec 2016 \$m |
| Cash flows from operating activities | | | |
| Receipts from customers | | 1,701.5 | 1,647.3 |
| Payments to suppliers and employees | | (1,639.0) | (1,551.0) |
| Interest received | | 0.2 | 0.3 |
| Interest and other costs of finance paid | | (16.4) | (17.9) |
| Income tax paid | | (5.8) | (5.1) |
| Net cash provided by operating activities | | 40.5 | 73.6 |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 1.4 | 6.1 |
| Payment for property, plant, equipment and capitalised contract costs | | (38.7) | (47.1) |
| Payment for acquisition of businesses | 13 | (20.0) | (23.1) |
| Proceeds from the sale of assets | | 4.5 | - |
| Payment for intangible assets | | - | (0.9) |
| Net cash used in investing activities | | (52.8) | (65.0) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 105.0 | 100.0 |
| Repayment of borrowings | | (75.0) | (50.0) |
| Payment of finance lease liabilities | | (4.5) | (3.0) |
| Dividends paid to members of the parent entity | | - | (54.9) |
| Net cash provided by / (used) in financing activities | | 25.5 | (7.9) |
| Net increase in cash and cash equivalents | | 13.2 | 0.7 |
| Cash and cash equivalents at the beginning of the half year | | 66.0 | 54.3 |
| Cash overdraft acquired as part of business combinations | 13 | - | (1.4) |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (0.3) | 0.3 |
| Cash and cash equivalents at the end of the half year | | 78.9 | 53.9 |

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

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the half year ended 31 December 2017

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 2017 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 2017. The half year financial statements were authorised for issue by the Directors on 21 February 2018.

2. Basis of Preparation

The half year 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.

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 2017.

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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016. Certain comparative information in the financial statements has been reclassified to ensure consistency of presentation.

New accounting standards

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

The Group did not early adopt the new standard and therefore AASB 15 will be applied for the first time in the year ended 30 June 2019. A modified retrospective approach has been elected under the transition rules, with the cumulative effect of initially applying the new standard to be recognised at the date of initial application (1 July 2018).

The Group's dedicated project team has made good progress, with work performed to date including:

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

The project team will be finalising their assessment over the coming months, however work performed to date indicates that there may be some impact on the Group, primarily to the Public Private Partnerships portfolio.

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

- AASB 9 *Financial Instruments* – effective for annual reporting periods beginning on or after 1 January 2018; and
- AASB 16 *Leases* – effective for annual reporting periods beginning on or after 1 January 2019.

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the half year ended 31 December 2017

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. The Group distinguishes between these revenue streams with respect to revenue recognition. Planned maintenance services revenue is recognised based on services completed. Life cycle maintenance revenue is based on stage of completion using costs incurred. In recognising the revenue, the Group periodically re-forecasts the estimated total contract costs based on the different stage of completion of the contract.

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 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.

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the half year ended 31 December 2017

3. Critical Accounting Estimates (continued)

Taxation

The Australian tax consolidated group has recognised a \$34.2 million (30 June 2017: \$25.1 million) deferred tax asset at 31 December 2017 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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the half year ended 31 December 2017

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 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) |
| Half year ended 31 Dec 2016 | | | | |
| Sales Revenue | 1,336.4 | 144.2 | (25.2) | 1,455.4 |
| EBITDA | (194.7) | (74.1) | (29.8) | (298.6) |
| Depreciation | (22.6) | (26.0) | (2.5) | (51.1) |
| Amortisation | - | - | (8.9) | (8.9) |
| EBIT | (217.3) | (100.1) | (41.2) | (358.6) |
| Net finance costs | - | - | (20.2) | (20.2) |
| Loss before income tax | (217.3) | (100.1) | (61.4) | (378.8) |
| Income tax benefit | - | - | 20.7 | 20.7 |
| Loss for the half year | (217.3) | (100.1) | (40.7) | (358.1) |

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the half year ended 31 December 2017

| | Half year ended | |
|---|-----------------|-------------|
| | 31 Dec 2017 | 31 Dec 2016 |
| | \$m | \$m |
| 5. Other Items Included in the Profit or Loss | | |
| Contract rationalisation and restructuring costs (Note 6) | (7.1) | (107.7) |
| Goodwill impairment (Note 6) | (40.0) | (315.7) |
| Management redundancies and integration costs (Note 6) | (3.1) | - |
| Re-measurement of provisions | - | 8.1 |
| Loss on disposal of MV Epicure | - | (2.5) |
| Exit costs of major Resources contract | - | (2.1) |
| Transaction costs | - | (3.8) |

6. Individually Significant Items

The following material items are included within 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 and restructuring costs (i) | 5.4 | 1.7 | (2.0) | 5.1 |
| Goodwill impairment (ii) | 40.0 | - | - | 40.0 |
| Management redundancies and integration costs (iii) | 3.1 | - | (0.9) | 2.2 |
| Other balance sheet adjustments (iv) | 60.8 | 8.7 | (40.1) | 29.4 |
| Total individually significant items | 109.3 | 10.4 | (43.0) | 76.7 |
| Half year ended 31 Dec 2016 | | | | |
| Contract rationalisation costs (i) | 104.0 | 3.7 | (32.3) | 75.4 |
| Goodwill impairment (ii) | 315.7 | - | - | 315.7 |
| Total individually significant items | 419.7 | 3.7 | (32.3) | 391.1 |

- (i) Contract rationalisation and restructuring costs largely relate to the accounting impacts of the Group's decision to review its current contract portfolio in line with its strategy outlined in 1H17. As a result, the Group is exiting a number of contracts within its portfolio as well as allowing the business to focus on investing in high-growth sectors, and improving performance and profitability.
- (ii) Further details on goodwill impairment can be found in Note 14.
- (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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the half year ended 31 December 2017

| | Half year ended | |
|--|-----------------|-------------|
| | 31 Dec 2017 | 31 Dec 2016 |
| | \$m | \$m |
| 7. Net Finance Costs | | |
| Interest Expense | | |
| Interest charged from third party entities | (18.7) | (18.9) |
| Other borrowing costs | (0.8) | (0.8) |
| Unwinding of discount on provisions | (1.1) | (0.8) |
| | (20.6) | (20.5) |
| Interest Revenue | | |
| Third party entities | 0.2 | 0.3 |
| | 0.2 | 0.3 |
| Net Finance Costs | (20.4) | (20.2) |

| | Half year ended | | | |
|--|-----------------|-----------|-----------------|-----------|
| | 31 Dec 2017 | | 31 Dec 2016 | |
| | Cents per share | Total \$m | Cents per share | Total \$m |
| 8. Dividends | | | | |
| Fully Paid Ordinary Shares | | | | |
| <i>Recognised and paid dividends</i> | | | | |
| 2016 final dividend (paid 30 September 2016) | - | - | 5.0 | 54.9 |
| <i>Unrecognised and declared dividends</i> | | | | |
| 2017 interim dividend | - | - | 1.35 | 14.8 |

The Directors have determined not to pay an interim dividend for the half year ended 31 December 2017.

9. Changes in the Composition of the Group

Other than the acquisition as disclosed in Note 13, there were no material changes to the composition of the Group during the period.

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the half year ended 31 December 2017

| | As at 31 Dec 2017 \$m | As at 30 Jun 2017 \$m |
|--|-----------------------------|-----------------------------|
| 10. Commitments and Contingencies | | |
| a) Commitments | | |
| Plant and equipment | 19.9 | 11.8 |
| Catering rights | 111.9 | 130.6 |
| Contract and bank guarantees and letters of credit | 151.3 | 144.3 |
| | 283.1 | 286.7 |

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 2017 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 2017 (30 June 2017: nil). A number of legal claims exist where the outcome is uncertain. Where practicable, provision has been made in the financial statements to recognise the estimated cost to settle the claims based on best estimate assumptions and legal advice where relevant. The actual amounts settled in relation to the outstanding matters may differ to those estimated.

ii) The Group has a 30 year Facilities Management Subcontract ("Subcontract") at the new Royal Adelaide Hospital and commenced service delivery in September 2017. The Group's Subcontract is with Celsus, which is a special purpose vehicle that is delivering the hospital to the South Australian Government under a Public Private Partnership model.

On 27 November 2017, the Group announced that the Subcontract is an underperforming contract. The Subcontract is cash negative and the Group is working to resolve a number of commercial and operational issues, which include significant preliminary claims and counter claims.

There have been no other significant contingencies since the most recent annual financial statements.

11. 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.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the half year ended 31 December 2017

12. Borrowings

Borrowings comprise interest bearing liabilities recorded at amortised cost, net of borrowing costs that are held to maturity. As at 31 December 2017, the Group has total committed facilities of \$1,039.1 million (30 June 2017: \$1,055.9 million), of which \$854.1 million is drawn (30 June 2017: \$830.9 million).

| | As at 31 Dec 2017 \$m | As at 30 Jun 2017 \$m |
|---|-----------------------------|-----------------------------|
| Unsecured multi-option facility, effective 28 May 2014 as amended, structured as a A\$324.9 million and a NZ\$107.0 million revolving credit facility terminating on 1 July 2019 (Facility A); and a A\$163.6 million and a NZ\$53.0 million revolving credit facility terminating 22 December 2019 (Syndicated Facility Agreement). | | |
| Amount drawn | 634.1 | 640.9 |
| Amount undrawn | - | - |
| Unsecured A\$100.0 million multi-currency revolving credit facility, effective 22 December 2015 and terminating 22 December 2020 (\$100m Syndicated Facility Agreement). | | |
| Amount drawn | 45.0 | - |
| Amount undrawn | 55.0 | 100.0 |
| Unsecured multi-option facility structured as a A\$115.0 million dual-currency cash advance facility, with a NZ\$70.0 million sub-limit, commencing 28 May 2014, as amended, and terminating 29 July 2019 (Bilateral Facility Agreement). | | |
| Amount drawn | 115.0 | 85.0 |
| Amount undrawn | - | 30.0 |
| Unsecured cash advance facilities, structured as: | | |
| <ul style="list-style-type: none"> two A\$75.0 million single currency revolving cash advance facilities commencing 16 December 2014, as amended, and terminating 1 January 2019; and a A\$40.0 million (A\$50 million at 30 June 2017) single currency revolving cash advance facilities, commencing 16 December 2014, as amended, and terminating 11 January 2019 (Bilateral Facility Agreement). | | |
| Amount drawn | 60.0 | 105.0 |
| Amount undrawn | 130.0 | 95.0 |
| Total Financing Facilities | 1,039.1 | 1,055.9 |

During the period, the Group amended and extended a number of debt facility agreements, as follows:

- the maturity dates of the two A\$75.0 million single currency cash advance facilities were extended from 1 September 2018 to 1 January 2019;
- the maturity date of the \$40.0 million single currency cash advance facility was extended from 11 July 2018 to 11 January 2019; and
- the maturity date of tranche A of the Syndicated Facility Agreement was extended from 22 December 2018 to 1 July 2019.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the half year ended 31 December 2017

13. Business Combinations

On 1 July 2017, the Group acquired the customer contracts and associated assets and liabilities of Cabrini Linen Service ("Cabrini"). The primary purpose for this acquisition is to strengthen the Group's linen capabilities, enhance customer service offerings and maintain the Group's market-leading position in the Victorian healthcare sector. The accounting for this acquisition remains provisional as at 31 December 2017 and will be finalised within 12 months of acquisition date, as the Group continues to assess the fair value of assets acquired and liabilities assumed.

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

Transaction costs of less than \$0.1 million (December 2016: \$0.4 million) relating to these acquisitions were recognised in other expenses in the profit and loss during the period.

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

| | Provisional at 30 Jun 2017 \$m | Adjustments \$m | Finalised at 31 Dec 2017 \$m |
|--|--------------------------------------|--------------------|------------------------------------|
| Assets | | | |
| Property, plant and equipment | 0.3 | - | 0.3 |
| Cash overdraft | (1.4) | - | (1.4) |
| Trade and other receivables | 11.2 | (0.3) | 10.9 |
| Inventories | 0.1 | - | 0.1 |
| Prepayments | 0.1 | - | 0.1 |
| Deferred tax assets | 3.2 | (1.7) | 1.5 |
| | 13.5 | (2.0) | 11.5 |
| Liabilities | | | |
| Trade and other payables | 22.2 | (0.3) | 21.9 |
| Employee provisions | 1.3 | 0.1 | 1.4 |
| Non-employee provisions | 3.0 | - | 3.0 |
| Other liabilities | 1.7 | - | 1.7 |
| | 28.2 | (0.2) | 28.0 |
| Total identifiable net liabilities at fair value | (14.7) | (1.8) | (16.5) |
| Purchase consideration transferred - cash | 23.9 | - | 23.9 |
| Intercompany amounts payable to the Group on acquisition | (1.5) | - | (1.5) |
| Goodwill arising on acquisition | 37.1 | 1.8 | 38.9 |

Nuvo contributed \$37.0 million of revenue and \$2.1 million to profit after tax for the half year ended 31 December 2017.

The adjustments to the provisional balances as at 30 June 2017 have not been restated in the prior comparative period for the half year ended 31 December 2017 as the adjustments (as shown in the above table) are deemed by management to be immaterial.

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

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the half year ended 31 December 2017

13. Business Combinations (continued)

(b) Provisional aggregated fair values of the identifiable assets and liabilities of Cabrini

| | Provisional at 31 Dec 2017 \$m |
|---|--------------------------------------|
| Assets | |
| Property, plant and equipment | 11.8 |
| Intangible assets | 5.5 |
| Deferred tax assets | 6.9 |
| | 24.2 |
| Liabilities | |
| Non-employee provisions | 22.9 |
| Finance leases | 9.0 |
| Deferred tax liabilities | 1.7 |
| | 33.6 |
| Total identifiable net liabilities at fair value | (9.4) |
| Purchase consideration transferred - cash | 20.0 |
| Goodwill arising on acquisition | 29.4 |

Cabrini contributed \$9.7 million of revenue and \$0.8 million to profit after tax for the half year ended 31 December 2017.

The goodwill of \$29.4 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.

| | As at 31 Dec 2017 \$m | As at 30 Jun 2017 \$m |
|--|-----------------------------|-----------------------------|
| 14. Goodwill | | |
| Balance at the beginning of the period | 753.4 | 1,032.0 |
| Acquired in a business combination (Note 13) | 31.2 | 37.1 |
| Impairment loss (Note 14(b)) | (40.0) | (315.7) |
| Balance at the end of the period | 744.6 | 753.4 |

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the half year ended 31 December 2017

14. Goodwill (continued)

(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 2017 \$m | As at 30 Jun 2017 \$m |
|---|-----------------------------|-----------------------------|
| Facility Services | 676.6 | 674.8 |
| Laundries | 68.0 | 78.6 |
| Balance at the end of the period | 744.6 | 753.4 |

(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 the Facility Services CGU at 31 December 2017, hence an impairment test is not required. However, management has assessed an indicator of impairment exists for the Laundries' CGU due to the deterioration in Laundries' FY18 underlying performance against budget and reduction in outer year forecasts, as well as an increase in the carrying value of the CGU as a result of the Cabrini laundry acquisition.

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

The discussion below outlines the Group's methodology and approach at 31 December 2017 for impairment testing of the Laundries' CGU.

SPOTLESS GROUP HOLDINGS LIMITED

Notes to the Financial Statements for the half year ended 31 December 2017

14. Goodwill (continued)

(b) Impairment testing of goodwill (continued)

(i) Methodology and testing of recoverable amount

Value in Use

The recoverable amount of the Laundries' CGU has been determined based on a Value In Use ("VIU") calculation.

Key assumptions

The following key assumptions have been used to determine the recoverable amounts of the Laundries' CGU 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

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

iii) EBITDA growth

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

iv) Long-term growth rate

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

(c) Recoverable amount

The recoverable amount of the Laundries' CGU was \$341.5 million and a goodwill impairment of \$40.0 million has been recognised in the period ended 31 December 2017.

SPOTLESS GROUP HOLDINGS LIMITED
Notes to the Financial Statements
for the half year ended 31 December 2017

14. Goodwill (continued)

(d) Sensitivity analysis

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

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

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

(24.6)

(15.2)

(16.7)

15. 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 2017 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

James Dent
Partner

Melbourne
21 February 2018

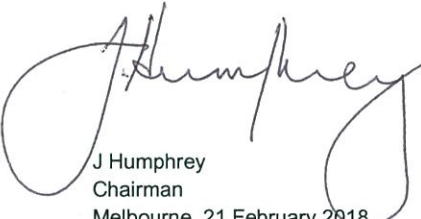
Directors' Declaration

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 2017 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 2017 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, 21 February 2018



D Nelson
Chief Executive Officer & Managing Director
Melbourne, 21 February 2018



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 Group 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 2017 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 the:

- Condensed consolidated statement of financial position as at 31 December 2017;
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Half-year ended on that date;
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information; and
- 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.



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 2017 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

James Dent
Partner

Melbourne
21 February 2018