Spotless Group Holdings Limited

Review of Operations for the Half Year Ended 31 December 2019

- Sales Revenue of $1,589.9 million, up 9.1% from the prior corresponding period, reflecting newly mobilised contracts, favourable Government works and contribution of the Envar business acquired in 2H19.
- EBIT of $71.6 million, decreased from 1H19 by $5.2 million due to the completion of low margin legacy construction contracts and decreased events in the various hospitality contracts, partially offset by strong results in the Government and PPP portfolios, albeit on lower margin activity.
- EBIT included a net $5.5 million benefit from the close out of legacy issues (+$10.9 million), restructuring costs (-$2.7 million) and portfolio review costs (-$2.7 million).
- Profit after tax of $36.4 million decreased from 1H19 by $2.6 million in line with the aforementioned EBIT decreases.
- Operating cash flows of $46.7 million decreased by $29.2 million from the prior corresponding period driven by a lower level of advanced receipts on contracts and adverse movement in working capital relative to the prior period.
- Net debt of $691.2 million increased by $7.7 million from FY19 attributable to the movement in operating cash.
- Opening retained losses were impacted by $26.2 million of adjustments upon the adoption of AASB 16 'Leases'.
- The Directors have determined there will be no interim dividend for the half year ended 31 December 2019.

Half Year Ended 31 December	2019 $m	2018 $m	Change %
Sales Revenue	**1,589.9**	**1,457.3**	9.1
EBITDA	**126.7**	**121.6**	4.2
EBIT	**71.6**	**76.8**	(6.8)
Profit after tax	**36.4**	**39.0**	(6.7)
Operating cash flow	**46.7**	**75.9**	(38.5)
Net debt	**691.2**	**701.7**	(1.5)
Net leverage ratio[1]	**2.7x**	**2.8x**	n/a

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

Cash Flow

Half Year Ended 31 December	2019 $m	2018 $m	Change %
Operating cash flow	**46.7**	75.9	(38.5)
Investing activities	**(36.6)**	(30.5)	(20.0)
Free Cash Flow	**10.1**	45.4	(77.8)

Operating cash flows decreased by $29.2 million / 38.5% from the prior period driven by a lower level of advanced receipts on contracts and adverse movement in working capital relative to the prior period.

Debt Management and Liquidity

	Dec 19	Jun 19
Net debt	**691.2**	683.5
Net Leverage Ratio[1]	**2.7x**	2.6x
Interest Cover Ratio[1]	**8.1x**	8.1x
Weighted Average Committed Debt Facility Maturity	**2.8 years**	2.2 years

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

Net debt increased by $7.7 million from June 2019 largely attributable to the reduction in operating cash.

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 $1,034.1 million of which $774.1 million is drawn at 31 December 2019.

Defined Terms

Spotless' Financial Statements for the half year ended 31 December 2019 have been prepared in accordance with Australian Accounting Standards.

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

Non-IFRS 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.
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 (as defined in the Group's debt facility agreements).
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 2019

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Directors’ Report

The Directors hereby present their report for the half year ended 31 December 2019. 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
Simon McKeon AO
Grant Thorne
Michael Ferguson
Grant Fenn

Principal activities

The principal activities of Spotless Group Holdings Limited and its subsidiaries (the “Group” or “Spotless”) during the half year ended 31 December 2019 were the provision of outsourced facility services, laundry and linen services, technical and engineering services, maintenance and asset management services and refrigeration solutions to various industries in Australia and New Zealand.

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 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;

- 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;

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

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

Directors' Report (continued)

2. Review of operations

A detailed review of the Group's results for the half year ended 31 December 2019 are given on Pages 1 to 2. The Review of Operations has been incorporated into, and forms part of, this Directors' Report.

Significant changes in state of affairs

The Company was removed from the ASX official list on 30 August 2019 and is no longer a listed company.

Other than the above, 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.

Lead Auditor's independence declaration

The lead auditor's independence declaration is included on page 24.

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, 12 February 2020

P Tompkins
Chief Executive Officer & Managing Director
Melbourne, 12 February 2020

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half year ended 31 December 2019

		Half year ended	
		31 Dec 2019	31 Dec 2018
Continuing Operations	Note	$m	$m
Revenue	4	**1,589.9**	1,457.3
		1,589.9	1,457.3
Direct employee expenses		**(545.1)**	(530.5)
Subcontractor expenses		**(559.7)**	(450.2)
Cost of goods used		**(256.1)**	(248.9)
Occupancy costs		**(22.8)**	(30.3)
Catering rights		**(22.4)**	(25.8)
Other expenses		**(57.1)**	(50.0)
Profit before depreciation, amortisation, finance costs and income tax (EBITDA)		**126.7**	121.6
Depreciation expense on leased assets		**(12.6)**	(1.9)
Other depreciation and amortisation expense		**(42.5)**	(42.9)
Profit before finance costs and income tax (EBIT)		**71.6**	76.8
Finance expense		**(16.7)**	(20.3)
Lease finance expense		**(3.2)**	(0.4)
Finance income		**0.3**	0.4
Profit before income tax		**52.0**	56.5
Income tax expense		**(15.6)**	(17.5)
Profit for the half year after tax		**36.4**	39.0
Other Comprehensive Income			
Items to be reclassified to profit or loss in subsequent periods:			
Foreign currency translation differences for foreign operations		**(0.3)**	(3.8)
Effective portion of changes in fair value of cash flow hedges		**1.5**	(0.7)
Income tax on effective portion of changes in fair value of cash flow hedges		**(0.5)**	0.2
Other comprehensive income / (loss) for the half year, net of income tax		**0.7**	(4.3)
Total comprehensive income for the half year		**37.1**	34.7
Total comprehensive income attributable to equity holders of the parent entity		**37.1**	34.7

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

Condensed Consolidated Statement of Financial Position as at 31 December 2019

	Note	31 Dec 2019 $m	30 Jun 2019 $m
Current assets			
Cash and cash equivalents		**91.9**	109.9
Trade receivables and contract assets		**383.9**	416.0
Inventories		**28.0**	29.5
Prepayments		**11.5**	11.1
Other		**0.1**	0.1
Total current assets		**515.4**	566.6
Non-current assets			
Investments accounted for using the equity method		**1.5**	1.6
Trade receivables and contract assets		**94.7**	76.3
Property, plant and equipment		**259.9**	270.0
Right of use assets	6	**109.4**	-
Goodwill		**774.0**	771.0
Intangible assets		**101.1**	108.1
Deferred tax assets		**150.3**	126.7
Other		**10.3**	16.3
Total non-current assets		**1,501.2**	1,370.0
Total assets		**2,016.6**	1,936.6
Current liabilities			
Trade payables and contract liabilities		**407.0**	461.3
Lease liabilities	7	**33.1**	2.7
Current tax liabilities		**6.6**	11.4
Provisions		**113.4**	124.0
Derivatives at fair value		**1.9**	3.1
Total current liabilities		**562.0**	602.5
Non-current liabilities			
Borrowings		**770.3**	779.8
Lease liabilities	7	**149.3**	7.3
Deferred tax liabilities		**69.8**	48.4
Provisions		**36.8**	80.6
Derivatives at fair value		**1.7**	1.8
Other		**19.7**	20.1
Total non-current liabilities		**1,047.6**	938.0
Total liabilities		**1,609.6**	1,540.5
Net assets		**407.0**	396.1
Equity			
Issued capital		**993.8**	993.8
Reserves		**2.1**	1.4
Accumulated losses		**(588.9)**	(599.1)
Total equity		**407.0**	396.1

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 2019

$m	Issued Capital	Foreign Currency Translation Reserve	Debt Hedging Reserve	Investment Revaluation Reserve	Share Based Payment Reserve	Accumulated Losses	Total
	Attributable to equity holders of the parent						
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 loss	-	(3.8)	(0.5)	-	-	-	(4.3)
Total comprehensive income / (loss)	-	(3.8)	(0.5)	-	-	39.0	34.7
At 31 December 2018	**993.8**	**(7.4)**	**(0.7)**	**(0.6)**	**13.3**	**(644.1)**	**354.3**
At 1 July 2019	**993.8**	**(7.8)**	**(3.5)**	**(0.6)**	**13.3**	**(599.1)**	**396.1**
Effect of AASB 16 (Note 2(a)(i))	**-**	**-**	**-**	**-**	**-**	**(26.2)**	**(26.2)**
Restated 1 July 2019	**993.8**	**(7.8)**	**(3.5)**	**(0.6)**	**13.3**	**(625.3)**	**369.9**
Profit for the half year	-	-	-	-	-	36.4	36.4
Other comprehensive income							
Currency translation differences	-	(0.3)	-	-	-	-	(0.3)
Movement in cash flow hedges	-	-	1.5	-	-	-	1.5
Tax effect of movements	-	-	(0.5)	-	-	-	(0.5)
Total other comprehensive income / (loss)	-	(0.3)	1.0	-	-	-	0.7
Total comprehensive income / (loss)	-	(0.3)	1.0	-	-	36.4	37.1
At 31 December 2019	**993.8**	**(8.1)**	**(2.5)**	**(0.6)**	**13.3**	**(588.9)**	**407.0**

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

Condensed Consolidated Cash Flow Statement
for the half year ended 31 December 2019

	Note	31 Dec 2019 $m	31 Dec 2018 $m
		Inflows/(Outflows) Half year ended	
Cash flows from operating activities			
Receipts from customers		**1,797.3**	1,633.3
Payments to suppliers and employees		**(1,724.5)**	(1,540.0)
Interest received		**0.3**	0.4
Interest and other costs of finance paid		**(15.0)**	(14.7)
Income tax paid		**(11.4)**	(3.1)
Net cash provided by operating activities		**46.7**	75.9
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1.2**	1.0
Payment for property, plant, equipment and deferred fulfillment costs		**(34.1)**	(33.2)
(Payment for) / recovery of acquisition of businesses	13	**(3.7)**	1.7
Net cash used in investing activities		**(36.6)**	(30.5)
Cash flows from financing activities			
Proceeds from borrowings		**90.0**	60.0
Repayment of borrowings		**(100.0)**	(100.0)
Payment of lease liabilities principal		**(17.0)**	(2.3)
Borrowing costs on re-financing		**(1.2)**	-
Net cash used in financing activities		**(28.2)**	(42.3)
Net (decrease) / increase in cash and cash equivalents		**(18.1)**	3.1
Cash and cash equivalents at the beginning of the half year		**109.9**	91.2
Effects of exchange rate changes on the balance of cash held in foreign currencies		**0.1**	0.2
Cash and cash equivalents at the end of the half year		**91.9**	94.5

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 2019 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 2019. The half year financial statements were authorised for issue by the Directors on 12 February 2020.

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 2019 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 2019. The changes in accounting policies will also be reflected in the Group's consolidated financial statements for the year ending 30 June 2020.

(i) AASB 16 'Leases'

The Group has elected to apply AASB 16 'Leases' ("AASB 16") using the 'modified retrospective approach' from 1 July 2019 and therefore the comparative information has not been restated as permitted under the specific transition provisions in the standard.

Upon transition to AASB 16, the Group recognised Right of use assets of $155.9 million and Lease liabilities of $194.4 million as at 1 July 2019. The subsequent movements in the Right of use assets as reflected in Note 6 has given rise to $12.6 million depreciation charges for the period. The resulting finance lease liabilities (Note 7) gave rise to finance costs of $3.2 million for the period.

2. Basis of Preparation (continued)

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

(i) AASB 16 'Leases' (continued)

Impact on Application

The table below presents the impact of the adoption on the balance sheet as at 1 July 2019:

$m	As reported 30 June 2019	Transfer of balances	Recognise AASB 16 balances	Opening balance 1 July 2019
Property, plant and equipment	270.0	(9.3)	-	**260.7**
Right of use and finance leased assets	-	(25.4)	146.6	**121.2**
Borrowings	(779.8)	-	-	**(779.8)**
Lease liabilities (current and non-current)	(10.0)	-	(184.4)	**(194.4)**
Other provisions (current and non-current)	(204.6)	34.7	-	**(169.9)**
Deferred tax balances	78.3	-	11.6	**89.9**
Retained earnings	599.1	-	26.2	**625.3**

The total adjustment to equity upon transition to AASB 16 was $26.2 million.

AASB 16 replaces existing lease accounting guidance and contains significant changes to the accounting treatment applied to leases. It requires a single accounting model to be applied to all types of leases, with the primary change being a requirement for lessees to recognise assets and liabilities for all leases, with the exception of short-term leases (with a duration of less than twelve months) and leases of low-value assets.

At transition, for leases classified as operating leases under the superceded standard (AASB 117), lease liabilities were measured and recognised at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019.

In applying AASB 16 for the first time, the Group has used the following practical exepedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- Excluding initial direct costs for the measurement of the right of use asset at the date of initial application; and
- Using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

2. Basis of Preparation (continued)

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

(i) AASB 16 'Leases' (continued)

The reconciliation between the operating lease commitments presented in the 30 June 2019 financial statements and the lease liability recognised as at 1 July 2019 is as follows:

$m	1 July 2019
Disclosed operating lease commitments at 30 June 2019	219.7
Recognition exemption for:	
Short term leases	(4.3)
Low value leases	(3.0)
Discounting using the incremental borrowing rate at 1 July 2019	(40.0)
Non cancellable lease commitment commencing in FY20	1.8
Finance lease liabilities recognised as at 30 June 2019	10.0
Lease liabilities remeasured at 1 July 2019	10.2
Lease liabilities recognised at 1 July 2019	**194.4**

On adoption of AASB 16, the Group:

- Recognised a lease liability measured at the present value of future minimum lease payments, discounted using the incremental borrowing rates. The weighted average rate applied was 3.44%;
- Recognised the associated right of use asset at its carrying amount as if AASB 16 had always been applied, discounted using the incremental borrowing rates at the date of initial application;
- Payments made before the commencement date and incentives received from the lessor are included in the carrying amount of the of the right of use asset;
- Recognised depreciation on right of use assets and interest on lease liabilities in the Condensed Consolidated Statement of Profit and Loss; and
- Recognised the principal portion of the lease payment as a financing cash flow and the interest portion of the lease payment as an operating cash flow in the Condensed Consolidated Statement of Cash Flows.

The details of the change in accounting policies are described below:

b) Accounting policies applied from 1 July 2019

(i) AASB 16 'Leases'

Impact of new definition of a lease

The Group assesses whether a contract is or contains a lease, at the inception of the contract. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application of AASB 16. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying AASB 117 and Interpretation 4 'Determining whether an arrangement contains Lease'.

2. Basis of Preparation (continued)

b) Accounting policies applied from 1 July 2019 (continued)

(i) AASB 16 'Leases' (continued)

Significant accounting policies

Where the Group is a lessee:

The Group has applied AASB 16 as of 1 July 2019. As a result, the Group has changed its accounting policy for leases as detailed below.

Right of use assets

The right of use assets are initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives; and any initial direct costs incurred by the lessee; and
- an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset.

Subsequently the right of use asset is measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The right of use asset is depreciated over the shorter period of the lease term and the useful life of the underlying asset. If the lease transfers ownership of the underlying asset or the costs of the right of use asset reflects that the Group will exercise a purchase option, the asset will be depreciated from the commencement date to the end of the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Lease liabilities

The lease liability is initially measured at the present value of future lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. Or if this rate cannot be readily determined the Group's incremental borrowing rate. Generally the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- the amount expected to be payable under a residual value guarantee; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments not included in the initial measurement of the lease liability are recognised directly in profit or loss.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

2. Basis of Preparation (continued)

b) Accounting policies applied from 1 July 2019 (continued)

(i) AASB 16 'Leases' (continued)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in the amount expected to be payable under a residual value guarantee; or
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Key estimates and judgements made:

(i) Extension option

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

(ii) Incremental borrowing rate

In determining the present value of the future lease payments, the Group discounts the lease payments using an incremental borrowing rate ('IBR'). The IBR reflects the financing characteristics and duration of the underlying lease. Once a discount rate has been set for a leased asset (or portfolio of assets with similar characteristics), this rate will remain unchanged for the term of that lease. When a lease modification occurs, and it is not accounted for as a separate lease, a new IBR will be assigned to reflect the new characteristics of the lease.

(iii) Residual value guarantees

The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. Typically, the expected residual value at lease commencement is equal to or higher than the guaranteed amount, and so the Group does not expect to pay anything under the guarantees.

At the end of each reporting period, the expected residual values are reviewed to reflect actual residual values achieved on comparable assets and expectations about future prices.

c) New accounting standards and interpretations not yet effective

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

- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business;
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material; and
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework.

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

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

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 $26.1 million (30 June 2019: $28.3 million) deferred tax asset at 31 December 2019 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.

Leases

Assumptions are made in relation to potential extensions to the lease term available in the numerous individual lease agreements. These assessments are based on management's current intention, commercial factors and the current market conditions; each of which has the potential to change over the remaining terms of the leases and differing outcomes may result.

Estimation of the expected amount payable under a residual value guarantee is based on historical experience.

4. 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.

	Half year ended	
	31 Dec 2019	31 Dec 2018
a) Revenue by geographical locations	$m	$m
Sales revenue		
Australia	**1,409.0**	1,288.6
New Zealand	**180.9**	168.7
Total revenue and other income	**1,589.9**	1,457.3

	Half year ended	
	31 Dec 2019	31 Dec 2018
b) Timing of revenue recognition	$m	$m
Sales revenue		
Service revenue (i)	**1,392.5**	1,266.5
Construction revenue (ii)	**104.0**	86.8
Total revenue recognised over time	**1,496.5**	1,353.3
Sale of goods (iii)	**93.4**	104.0
Total revenue recognised at a point in time	**93.4**	104.0
Total revenue and other income	**1,589.9**	1,457.3

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

(ii) 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 construction contract revenue is recognised over time based on stage of completion of contract.

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

5. Profit and Loss Items

Profit before Income Tax includes a net $5.5 million benefit from the close out of legacy issues (+$10.9 million), restructuring costs (-$2.7 million) and portfolio review costs (-$2.7 million).

6. Right of Use Assets

The Group leases many assets including property, motor vehicles and plant and equipment. Information about leased assets for which the Group is a lessee is presented below.

Dec 2019 $m	Leasehold Property	Motor Vehicles	Plant and Equipment	Total
Cost				
Balance at 1 July 2019	125.8	18.0	12.1	**155.9**
Opening onerous provision	(34.7)	-	-	**(34.7)**
Adjusted balance at 1 July 2019	91.1	18.0	12.1	**121.2**
Additions	3.3	3.4	0.7	**7.4**
Remeasure	(4.6)	0.1	-	**(4.5)**
Disposals	(1.1)	(0.1)	-	**(1.2)**
Cost at 31 December 2019	**88.7**	**21.4**	**12.8**	**122.9**
Accumulated depreciation				
Balance at 1 July 2019	-	-	-	**-**
Depreciation charge for the period	(5.8)	(5.3)	(1.5)	**(12.6)**
Accumulated depreciation as at 31 December 2019	**(5.8)**	**(5.3)**	**(1.5)**	**(12.6)**
Increase in onerous provision	(0.9)	-	-	**(0.9)**
Net book value as at 31 December 2019	**82.0**	**16.1**	**11.3**	**109.4**

The right of use assets above serve as security against the lease liabilities presented in Note 7.

7. Lease Liabilities

	As at 31 Dec 2019 $m	As at 30 Jun 2019 $m
Contractual undiscounted cash flows		
Less than one year	**33.1**	3.0
One to five years	**81.3**	7.3
More than five years	**112.6**	-
Total undiscounted lease liabilities	**227.0**	10.3
Current	**33.1**	2.7
Non current	**149.3**	7.3
Lease liabilities included in the Consolidated Statement of Financial Position	**182.4**	10.0

8. Dividends

The Directors have determined not to pay an interim dividend for the half year ended 31 December 2019.

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.

10. Commitments and Contingencies

	As at 31 Dec 2019 $m	As at 30 Jun 2019 $m
a) Commitments		
Catering rights	**75.1**	89.2
Bank guarantees, insurance bonds and letters of credit (i)	**150.5**	153.7

i) 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.

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.

ii) Spotless engages around 30,000 employees under a variety of Enterprise Agreements (EAs) and Modern Awards. During the half year, Spotless commenced a review of the applicable EAs and Modern Awards, together with the assumptions regarding their interpretation and application in its payroll systems in order to validate the correct application of pay rates to employees as well as any instances of historical underpayments or overpayments. This process is ongoing.

As identified in the review so far, five matters that give rise to an obligation to make good any shortfall in payment and quantified, have been expensed in full in the period. As the review is only part complete, it is not possible to reliably determine what other instances or quantum of any other underpayments may exist. No further provision has been recognised at 31 December 2019 as no other instances have been identified at this stage of the review.

Other than the above, the Group does not have any material contingent liabilities in respect of legal proceedings as at 31 December 2019 (31 December 2018: nil). A number of legal claims exist where the outcome is uncertain. Where practicable, provision has been made in the financial statements to recognise the estimated cost to settle the claims based on best estimate assumptions and legal advice where relevant. The actual amounts settled in relation to the outstanding matters may differ to those estimated.

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.

12. Borrowings

Borrowings comprise interest bearing liabilities recorded at amortised cost, net of borrowing costs that are held to maturity. During the period, the Group amended and extended the Syndicated Facility Agreement as well as its two existing $50 million single currency revolving cash advance facilities. As at 31 December 2019, the Group has total committed facilities of $1,034.1 million (30 June 2019: $1,053.4 million), of which $774.1 million is drawn (30 June 2019: $783.4 million).

	As at 31 Dec 2019 $m	As at 30 Jun 2019 $m
Unsecured syndicated facility, structured as one A$280 million and two NZ$75 million tranches terminating July 2022; and a $A280 million tranche and a $A180 million tranche terminating July 2023 (Syndicated Facility Agreement).		
Amount drawn	**724.1**	733.4
Amount undrawn	**160.0**	170.0
Unsecured cash advance facilities, structured as two $A50 million single currency revolving cash advance facilities, the first facility terminating May 2020 and the second facility terminating May 2022 (Bilateral Facility Agreement).		
Amount drawn	**-**	-
Amount undrawn	**100.0**	100.0
Unsecured term loan, structured as one $A50 million facility, terminating March 2021 (Facility Agreement).		
Amount drawn	**50.0**	50.0
Amount undrawn	**-**	-
Total Financing Facilities	**1,034.1**	1,053.4

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

13. Business Combinations

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

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

The primary purpose of this acquisition is to continue to build a market leading integrated mechanical and electrical business. The accounting for this acquisition has been finalised as at 31 December 2019.

	Provisional at 30 June 2019 $m	Adjustments $m	Finalised at 31 Dec 2019 $m
Assets			
Cash and cash equivalents	6.7	-	**6.7**
Trade receivables and contract assets	0.3	8.1	**8.4**
Inventories	0.1	(0.1)	**-**
Property, plant and equipment	0.8	-	**0.8**
Deferred tax assets	0.8	-	**0.8**
	8.7	8.0	**16.7**
Liabilities			
Trade payables and contract liabilities	8.0	11.1	**19.1**
Employee provisions	1.3	0.1	**1.4**
Non employee provisions	-	0.5	**0.5**
Other liabilities	0.7	(0.7)	**-**
	10.0	11.0	**21.0**
Total identifiable net liabilities at fair value	(1.3)	(3.0)	**(4.3)**
Purchase consideration transferred – cash	10.0	3.7	**13.7**
Deferred purchase consideration payable	14.9	(3.7)	**11.2**
Goodwill arising on acquisition	26.2	3.0	**29.2**

Envar contributed $23.1 million of revenue and $2.0 million to profit after tax for the half year ended 31 December 2019.

The goodwill of $29.2 million includes knowledge, business and capability acquired as well as the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

14. 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 2019 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

Tony Romeo
Partner

Melbourne
12 February 2020

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 2019 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 2019 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, 12 February 2020

P Tompkins
Chief Executive Officer & Managing Director
Melbourne, 12 February 2020

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 2019 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 2019.
- 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 14 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.

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 2019 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

Tony Romeo
Partner

Melbourne
12 February 2020