SPOTLESS GROUP HOLDINGS LIMITED

ABN 27 154 229 562
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2020

INDEX

Directors' Report

The Directors hereby present their report for the year ended 30 June 2020. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Directors

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

Director Profiles

John Humphrey

Chairman, Non-Executive Director

LLB

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

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

Peter Tompkins

Chief Executive Officer and Managing Director

BCom, LLB

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

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

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

Michael Ferguson

Non-Executive Director

BCom, CA

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

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

Directors’ Report (continued)

Director Profiles (continued)

Simon McKeon AO

Non-Executive Director

BCom, LLB, DPH, FAICD

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

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

During his over 35 years at Macquarie Group, Simon specialised in corporate mergers and acquisitions, fund raising and strategic advice. He continues to be retained as a consultant by Macquarie. Prior to this, he practiced as a lawyer with Blake Dawson Waldron in Sydney.

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

Simon is presently Chairman of South East Melbourne, Summer Housing and the Australian Industry Energy Transitions Initiative. He is an Australia Day Ambassador for the Victorian Government and also serves on the Advisory Boards of The Big Issue and InfraBuild.

Grant Anthony Fenn

Non-Executive Director

BEc, CA

Grant was appointed a Non-Executive Director in December 2017.

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

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

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

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

Grant Thorne

Non-Executive Director

Dr Thorne retired effective 13 July 2020.

Directors' Report (continued)

Director Profiles (continued)

Company Secretary

Paul Morris

BEc (Hons), LLB

Paul was appointed Company Secretary and General Counsel in September 2012 and resigned on 29 November 2019.

Elaine McInerney

BA, LLB

Elaine was appointed Company Secretary on 29 November 2019 and resigned on 10 August 2020.

Suzanna Dabski

LLM, BBA (Honours), BBA LLB

Suzanna was appointed Company Secretary on 10 August 2020.

Directors' Meetings

	Board		Audit, Business Risk and Compliance Committee		People and Remuneration Committee	
Name	**A**	**B**	**A**	**B**	**A**	**B**
John Humphrey	13	13	5	5	4	4
Peter Tompkins	13	13	-	-	-	-
Simon McKeon	13	13	5	5	4	4
Grant Thorne	13	11	5	5	4	4
Michael Ferguson	13	12	5	5	-	-
Grant Fenn	13	11	-	-	-	-

A: Number of meetings held where during the period that the Director was a member of the Board or Committee.
B: Number of meetings attended.

Principal activities

The principal activities of Spotless Group Holdings Limited and its subsidiaries during the year ended 30 June 2020 were the provision of outsourced facility services, laundry and linen services, technical and engineering services, maintenance and asset management services and refrigeration solutions to various industries in Australia and New Zealand.

Directors' Report (continued)

Results for the year ended 30 June 2020

- Sales Revenue of $3,038.2 million, up 0.4% from the prior corresponding period, reflecting increased project volumes within Government and Defence businesses, partially offset by COVID-19 pandemic impacts on the Hospitality, New Zealand and Laundries businesses.

- EBIT loss of $39.1 million, reflects a decrease of $198.1 million from the prior year driven by the impact of $141.1 million of individually significant items recorded as a result of portfolio restructure and exit costs, payroll remediation costs and legal settlement expenses. There were no individually significant items in the comparative period. Excluding the impact of these items, underlying EBIT has decreased from the prior year by $57.0 million primarily driven by a $29.0 million impact from the COVID-19 pandemic particularly in the Hospitality and Laundries businesses as well as $25.9 million of historic contract claim adjustments in the Infrastructure & Construction business.

- Loss after tax of $53.1 million decreased from FY19 profit by $137.1 million due to the impact of the above mentioned individually significant items ($99.7 million after tax) on the current period comprising portfolio restructure and exit costs ($64.1 million), payroll remediation costs ($11.8 million) and legal settlement expenses ($23.8 million).

- Operating cash flows of $128.1 million decreased by $11.8 million from the prior year largely due to the impacts of COVID-19 on operations.

- Net debt of $654.4 million decreased by $29.1 million from FY19 attributable to the positive cash position for the year and controlled capital expenditure.

- 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 final dividend for the year ended 30 June 2020.

Year Ended 30 June 2020	2020 $m	2019 $m	Change %
Sales Revenue	**3,038.2**	3,025.1	0.4
EBITDA	**73.2**	249.5	(70.7)
EBIT	**(39.1)**	159.0	> 100
(Loss) / Profit after tax	**(53.1)**	84.0	> 100
Operating cash flow	**128.1**	139.9	(8.4)
Net debt	**654.4**	683.5	(4.3)
Net leverage ratio[1]	**3.4x**	2.6x	

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

Directors’ Report (continued)

Review of Operations

Individually Significant Items

The results for the year ended 30 June 2020 were impacted by the following individually significant items:

Portfolio Restructure and Exit Costs

Portfolio restructure and exit costs of $64.1 million (after tax) represents restructuring costs incurred following management decision to scale back the Group’s construction service offerings and the exit from the Resources sector, as well as cost associated in right sizing the business to reflect a new operating model and remain competitive in a post COVID-19 environment.

Payroll Remediation Costs

Payroll remediation costs of $11.8 million (after tax) reflect the costs incurred in relation to the Group’s assessment to confirm compliance with its Modern Awards and EBAs and ensure employees have been paid appropriately.

Legal Settlement Costs

Legal settlement costs of $23.8 million (after tax) represent the excess cost over the insurance cover, following the acceptance of the offer to settle the shareholder claim action commenced against Spotless in the Federal Court of Australia in May 2017. The settlement was without admission of liability, and includes interest and cost to the Applicant. This claim has been previously disclosed as a contingent liability.

Statutory Results

Statutory sales revenue increased from FY19 by $13.1 million (0.4%) reflecting growth across the Group with increased project volumes within Government and Defence businesses, offset by COVID-19 pandemic impacts on the Hospitality, New Zealand and Laundries businesses.

EBITDA decreased from FY19 by $176.3 million due to the current period being significantly impacted by $141.1 million of individually significant items recorded as a result of portfolio restructure and exit costs, payroll remediation costs and legal settlement expenses. Excluding these items, underlying EBITDA has decreased from the prior year primarily due to the deterioration in underlying performance within the Hospitality and Laundries businesses as a result large scale reduction in activity following site closures and cessation of events caused by the COVID-19 pandemic. Additionally, $25.9 million of historic construction contract claims and variations were written off during the year following a reassessment of the recoverability of the claims given increased counterparty credit risk and other factors. The remaining business portfolios including Defence, Government and Health & Education, which were largely unaffected by the pandemic, continued to perform strongly.

Depreciation and amortisation expense increased by $21.8 million driven by the adoption of AASB 16 ‘Leases’ from 1 July 2019.

Finance costs decreased from FY19 due to the decreased external interest expense on lower debt levels as well as a reduction in the cost of debt following refinancing.

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

Directors' Report (continued)

Cash Flow

Year ended 30 June 2020	2020 $m	2019 $m	Change %
Operating Cash Flow	**128.1**	139.9	(8.4)
Investing Activities	**(74.0)**	(77.0)	3.9
Free Cash Flow	**54.1**	**62.9**	(14.0)

Operating cash flows decreased by $11.8 million (-8.4%) from the prior period, largely due to the impact of COVID-19 resulting in significantly reduced operations at Hospitality sites which are historically strong cash generating businesses.

Balance Sheet

Key Balance Sheet Metrics	2020 $m	Restated 2019[2] $m	Change %
Current Assets	**563.9**	566.6	(0.5)
Non-Current Assets	**1,507.7**	1,377.4	9.5
- Goodwill	**774.0**	771.0	0.4
- PP&E, Right of use assets and Other	**733.7**	606.4	21.0
Current Liabilities	**738.3**	627.3	17.7
Non-Current Liabilities	**1,034.7**	938.0	10.3
Net Current (Liabilites) / Assets	**(174.4)**	(60.7)	>100
Net Assets	**298.6**	378.7	(21.2)
Net Debt[1]	**654.4**	683.5	4.3

[1] Excludes deferred borrowing costs

[2] June 2019 balances have been restated following review of the Group's compliance with Enterprise Agreements (EAs) and Modern Award obligations (Refer to Note 2(a)).

Balance sheet movements from the prior year were predominantly driven by a combination of the impact of Individually Significant Items recorded during the year and the initial adoption of AASB 16 'Leases' ("AASB 16").

The Group has elected to apply 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 (refer Note 3 for further details).

Debt Management and Liquidity

	2020	2019
Net Leverage Ratio[1]	**3.4x**	2.6x
Interest Cover Ratio[1]	**6.9x**	8.1x
Weighted Average Committed Debt Facility Maturity	**2.4 years**	2.2 years

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

Net debt decreased by $29.1 million from June 2019 attributable to the positive operating cash and decreased capital expenditure.

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

The Group has committed debt facilities of $1,025.8 million of which $770.8 million is drawn at 30 June 2020.

Directors' Report (continued)

Defined Terms

Spotless' financial statements for the year ended 30 June 2020 have been prepared in accordance with Australian Accounting Standards.

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

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

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

Glossary

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

Significant changes in state of affairs

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

On 21 July 2020, Downer announced it has made an unconditional offer to acquire all of the issued share capital of Spotless not already owned for an upfront cash consideration of approximately $134.5 million, plus a maximum of 7.5 million Downer shares to be issued on exercise of the Downer Contingent Share Option.

Downer has entered into a call option deed with Coltrane Master Fund, L.P. under which it has a call option over 2.99% of Spotless shares, which on exercise will increase Downer's ownership above the 90% threshold required to proceed to compulsory acquisition.

Outside of the above, at the date of this report, there have been no other matters or circumstances that have arisen since the end of the financial year, that have 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 subsequent financial years.

Directors' Report (continued)

Likely developments

Details of developments in the operations of the Group in future financial years and the expected results of those operations are disclosed in the Operating and Financial Review on pages 6 to 8.

Dividends

The Directors have determined not to pay a final dividend for the year ended 30 June 2020.

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

Share options

No share options and rights were granted to senior executives of the Group during the year ended 30 June 2020.

Share issues

The Group did not issue any ordinary shares during the financial year ended 30 June 2020.

Environmental regulation

The Group is committed to protect the environment, prevent pollution and engage in sustainable practices to reduce its operational footprint and help our customers achieve the same. The Group has a strong culture in environmental and regulatory reporting and have adapted our approach to environmental management over the years, based on the broad aspects that it manages as a business. The Group's Zero Harm management framework sets out the environmental sustainability governance requirements.

The Group is certified to the international ISO 14001:2015 environmental management standard and is in the process of expanding its certification across its lines of business. It also adheres to other third-party standards and guidelines, as well as customer specific requirements, on a project-by-project basis and ensure that we meet all applicable licence and regulatory conditions. The management system is reviewed regularly, undergoing internal and external audit to ensure that effective controls are maintained and opportunities for continuous improvement are identified.

The Group has a strong environmental performance record and in the reporting period Spotless achieved zero environmental fines / prosecutions and zero significant environmental incidents. In addition, further work was completed to manage the legacy land contamination associated with its Laundries business.

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary, all officers of the Company and of any related body corporate against a liability incurred as a Director, secretary or executive officer to the extent permitted by the Corporations Act 2001 (Cth). The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company's Constitution includes indemnities, to the extent permitted by law, for each Director and Company Secretary of the Company and its subsidiaries against liability incurred in the performance of their roles as officers. The Directors and the Company Secretaries listed on pages 4 to 5, individuals who act as a Director or Company Secretary of the Company's subsidiaries and certain individuals who formerly held any of these roles also have the benefit of the indemnity in the Constitution. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Lead Auditor's independence declaration

The lead auditor's independence declaration is included on page 66.

Proceedings brought on behalf of Spotless Group Holdings Limited

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

Directors’ Report (continued)

Rounding

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

On behalf of the Board of Directors

J Humphrey
Chairman
Melbourne, 12 August 2020

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2020

	Note	2020 $m	2019 $m
Revenue		**3,038.2**	3,025.1
Other income		**22.0**	-
	4	**3,060.2**	3,025.1
Direct employee expenses		**(1,096.1)**	(1,080.4)
Subcontractor expenses		**(1,161.1)**	(991.0)
Cost of goods used		**(454.5)**	(483.7)
Occupancy costs		**(46.1)**	(55.4)
Catering rights		**(32.0)**	(43.9)
Other expenses		**(197.2)**	(121.2)
Profit before depreciation, amortisation, finance costs and income tax (EBITDA)		**73.2**	249.5
Depreciation expense on leased assets	5(a)	**(26.7)**	(3.3)
Other depreciation and amortisation expense	5(a)	**(85.6)**	(87.2)
(Loss) / Profit before finance costs and income tax (EBIT)		**(39.1)**	159.0
Finance expense	5(b)	**(30.4)**	(39.3)
Lease finance expense		**(6.5)**	(0.7)
Finance income	4	**0.5**	0.8
(Loss) / Profit before income tax		**(75.5)**	119.8
Income tax benefit / (expense)	7(a)	**22.4**	(35.8)
(Loss) / Profit for the year after tax		**(53.1)**	84.0
Other Comprehensive Income			
Items to be reclassified to profit or loss in subsequent periods:			
Foreign currency translation differences for foreign operations		**1.8**	(4.2)
Effective portion of changes in fair value of cash flow hedges		**(3.7)**	(4.7)
Income tax on effective portion of changes in fair value of cash flow hedges		**1.1**	1.4
Other comprehensive (loss) / income for the year, net of income tax		**(0.8)**	(7.5)
Total comprehensive (loss) / income for the year		**(53.9)**	76.5
Total comprehensive (loss) / income attributable to equity holders of the parent entity		**(53.9)**	76.5
(Loss) / Profit attributable to equity holders of the parent entity		**(53.1)**	84.0

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

Consolidated Statement of Financial Position
as at 30 June 2020

Current assets	Note	2020 $m	Restated 2019[1] $m
Cash and cash equivalents	11(a)	**122.9**	109.9
Trade receivables and contract assets	8	**405.6**	416.0
Inventories		**24.4**	29.5
Prepayments		**11.0**	11.1
Other		**-**	0.1
Total current assets		**563.9**	566.6
Non-current assets			
Investments accounted for using the equity method		**1.2**	1.6
Trade receivables and contract assets	8	**89.2**	76.3
Property, plant and equipment	15	**249.8**	270.0
Right of use assets	16	**105.7**	-
Goodwill	21	**774.0**	771.0
Intangible assets	17	**75.7**	108.1
Deferred tax assets[2]	7(c)	**201.9**	134.1
Other	18	**10.2**	16.3
Total non-current assets		**1,507.7**	1,377.4
Total assets		**2,071.6**	1,944.0
Current liabilities			
Trade payables and contract liabilities[2]	9	**579.4**	486.1
Borrowings	12(a)	**0.6**	-
Lease liabilities	13	**32.9**	2.7
Current tax liabilities		**4.0**	11.4
Provisions	10	**116.6**	124.0
Derivatives at fair value	12(a)	**4.8**	3.1
Total current liabilities		**738.3**	627.3
Non-current liabilities			
Borrowings	12(a)	**766.9**	779.8
Lease liabilities	13	**147.0**	7.3
Deferred tax liabilities	7(d)	**74.1**	48.4
Provisions	10	**31.2**	80.6
Derivatives at fair value	12(a)	**3.8**	1.8
Other		**11.7**	20.1
Total non-current liabilities		**1,034.7**	938.0
Total liabilities		**1,773.0**	1,565.3
Net assets		**298.6**	378.7
Equity			
Issued capital	14	**993.8**	993.8
Reserves		**0.6**	1.4
Accumulated losses		**(695.8)**	(616.5)
Total equity		**298.6**	378.7

The accompanying notes form an integral part of these financial statements. [1]June 2019 balances have been restated following review of the Group's compliance with Enterprise Agreements (EAs) and Modern Award obligations (Refer to Note 2(a)). [2] Refer to Note 2(a)

Consolidated Statement of Changes in Equity
for the year ended 30 June 2020

	Consolidated $m						
	Attributable to equity holders of the parent						
	Issued Capital	**Foreign Currency Translation Reserve**	**Debt Hedging Reserve**	**Investment Revaluation Reserve**	**Share Based Payment Reserve**	**Accumulated Losses**	**Total**
At 1 July 2018	**993.8**	**(3.6)**	**(0.2)**	**(0.6)**	**13.3**	**(578.6)**	**424.1**
Effect of AASB 15	**-**	**-**	**-**	**-**	**-**	**(104.5)**	**(104.5)**
Adjustment for Payroll Remediation Costs (Note 2 (a))	**-**	**-**	**-**	**-**	**-**	**(17.4)**	**(17.4)**
Restated at 1 July 2018	**993.8**	**(3.6)**	**(0.2)**	**(0.6)**	**13.3**	**(700.5)**	**302.2**
Profit for the year	-	-	-	-	-	84.0	84.0
Currency translation differences	-	(4.2)	-	-	-	-	(4.2)
Movement in cash flow hedges	-	-	(4.7)	-	-	-	(4.7)
Tax effect of movements	-	-	1.4	-	-	-	1.4
Total other comprehensive loss	-	(4.2)	(3.3)	-	-	-	(7.5)
Total comprehensive income / (loss)	-	(4.2)	(3.3)	-	-	84.0	76.5
At 30 June 2019	**993.8**	**(7.8)**	**(3.5)**	**(0.6)**	**13.3**	**(616.5)**	**378.7**
At 1 July 2019	**993.8**	**(7.8)**	**(3.5)**	**(0.6)**	**13.3**	**(616.5)**	**378.7**
Effect of AASB 16 (Note 3 (e)(i))	**-**	**-**	**-**	**-**	**-**	**(26.2)**	**(26.2)**
Restated 1 July 2019	**993.8**	**(7.8)**	**(3.5)**	**(0.6)**	**13.3**	**(642.7)**	**352.5**
Loss for the year	-	-	-	-	-	**(53.1)**	**(53.1)**
Other comprehensive income							
Currency translation differences	-	1.8	-	-	-	-	1.8
Movement in cash flow hedges	-	-	(3.7)	-	-	-	(3.7)
Tax effect of movements	-	-	1.1	-	-	-	1.1
Total other comprehensive income / (loss)	-	1.8	(2.6)	-	-	-	(0.8)
Total comprehensive income / (loss)	-	1.8	(2.6)	-	-	(53.1)	(53.9)
At 30 June 2020	**993.8**	**(6.0)**	**(6.1)**	**(0.6)**	**13.3**	**(695.8)**	**298.6**

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

Consolidated Cash Flow Statement
for the year ended 30 June 2020

	Note	Inflows/(Outflows) 2020 $m	2019 $m
Cash flows from operating activities			
Receipts from customers		**3,461.9**	3,279.4
Payments to suppliers and employees		**(3,285.3)**	(3,104.8)
Interest received		**0.5**	0.8
Interest and other costs of finance paid		**(28.4)**	(31.3)
Lease interest paid		**(6.5)**	-
Income tax paid		**(14.1)**	(4.2)
Net cash provided by operating activities	11(b)	**128.1**	139.9
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1.4**	4.4
Payment for property, plant, equipment and deferred fulfilment costs		**(67.8)**	(78.4)
Payment for acquisition of businesses, net of cash acquired	20	**(7.5)**	(3.3)
Net recovery of cash paid for acquisition of businesses		**-**	1.7
Payment for intangible assets		**(0.1)**	(1.4)
Net cash used in investing activities		**(74.0)**	(77.0)
Cash flows from financing activities			
Proceeds from borrowings		**255.6**	150.0
Repayment of borrowings		**(265.0)**	(190.0)
Payment of lease liabilities principal		**(29.1)**	(4.6)
Borrowing costs		**(1.8)**	-
Net cash used in financing activities		**(40.3)**	(44.6)
Net increase in cash and cash equivalents		**13.8**	18.3
Cash and cash equivalents at the beginning of the year		**109.9**	91.2
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(0.8)**	0.4
Cash and cash equivalents at the end of the year	11(a)	**122.9**	109.9

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

Notes to the Financial Statements for the year ended 30 June 2020

The notes include additional information required to understand our financial statements that is material and relevant to the Group's operations, financial position and performance. The notes are organised into the following sections:

About This Report

1. Reporting Entity

Spotless Group Holdings Limited ("the Company") is a for-profit company incorporated and domiciled in Australia. The registered office of the Company is at 549 St Kilda Rd, Melbourne VIC 3004. These consolidated financial statements comprise the Company and its subsidiaries (collectively, the "Group").

2. Basis of Preparation

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, adopted by the Australian Accounting Standards Board ("AASB"), and the *Corporations Act 2001*. The financial statements of the Group comply with International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Accounting Standards Board ("IASB"). The financial statements were authorised for issue by the Directors on 12 August 2020.

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

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

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

(a) Payroll Remediation Costs

During the year, Spotless commenced a review of the applicable Enterprise Agreements 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 identify historical underpayments and overpayments.

While the review to determine the extent of the remediation continues, the Group has estimated the likely underpayments relating to the period prior to 1 July 2018 as $24.8 million before tax. The annual amounts were not material to profit for any of the individual years to which they related however the cumulative impact is material to the results for the year ended 30 June 2020. Therefore in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors', the Group has restated opening retained earnings to reflect this adjustment.

As a result, the opening balance of accruals have been increased by $24.8 million, with corresponding adjustments to Retained Earnings and Deferred Tax Assets. The impact of these changes on the opening position for these balances has flowed through to the closing balances for the year ended 30 June 2019. The Consolidated Statement of Profit or Loss and Other Comprehensive Income, and the Consolidated Statement of Cash Flows comparatives (reported as at 30 June 2020) are unchanged.

Critical estimates and judgments have been made in the calculations as to the impacted employees, allowance payments and assumed work patterns. Any revisions of the estimates will be recognised in the period in which the revisions are identified.

2. Basis of Preparation (continued)

(a) Payroll Remediation Costs (continued)

The following table presents the impact of the 1 July 2018 restatement on the comparative information presented in the prior year Annual Report:

$m	Note	As previously reported	Adjustment	As restated
Trade payables and contract liabilities	9	(461.3)	(24.8)	**(486.1)**
Deferred tax asset	7	126.7	7.4	**134.1**
Other net assets		730.7	-	**730.7**
Net assets		396.1	(17.4)	**378.7**
Accumulated losses		(599.1)	(17.4)	**(616.5)**
Other equity balances		995.2	-	**995.2**
Total equity		396.1	(17.4)	**378.7**

(b) Critical Accounting Estimates

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

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

Accounting estimates and assumptions	Note	
Long-term contract revenue recognition	4	Revenue
Taxation	7	Income Tax
Credit risk	8	Trade Receivables and Contract Assets
Environmental provisions	10	Provisions
Property make-good provisions	10	Provisions
Onerous contracts provisions	10	Provisions
Long service leave provisions	10	Provisions
Lease term extension	13	Lease Liabilities
Incremental borrowing rate	13	Lease Liabilities
Residual value guarantees	13	Lease Liabilities
Useful lives of acquired customer contracts	17	Intangible Assets
Impairment of intangible assets (including software development costs)	17	Intangible Assets
Impairment of goodwill	21	Goodwill

3. Summary of Significant Accounting Policies

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

(a) Basis of Consolidation

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

Subsidiaries

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

Joint ventures

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

(b) Foreign Currency

The presentation currency of the Group is Australian Dollars.

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

Foreign currency item	Applicable exchange rate
Transactions	Date of the transaction
Monetary assets and liabilities	Reporting date
Non-monetary assets and liabilities measured at historical cost	Initial transaction date

Foreign subsidiaries have a functional currency other than Australian Dollars. On consolidation, the assets, liabilities, income and expenses of foreign operations are translated into Australian Dollars using the following applicable exchange rates:

Foreign currency item	Applicable exchange rate
Income and expenses	Weighted average exchange rate or date of the transactions
Assets and liabilities	Reporting date

Foreign exchange differences resulting from translation are recognised in Other Comprehensive Income (“OCI”) and accumulated in the foreign currency translation reserve.

3. Summary of Significant Accounting Policies (continued)

(c) Goods and Services Tax

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

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

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

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

(d) Borrowing Costs

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

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

Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements for the year ended 30 June 2019. The new policies have also been reflected in the relevant notes to the financial statements.

(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 16 has given rise to $26.7 million depreciation charges for the period. The resulting finance lease liabilities (Note 13) gave rise to finance costs of $6.5 million for the period.

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.

3. Summary of Significant Accounting Policies (continued)

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

(i) AASB 16 'Leases' (continued)

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 superseded 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 expedients 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.

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 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 Consolidated Statement of Cash Flows.

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

3. Summary of Significant Accounting Policies (continued)

(f) 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'.

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.

3. Summary of Significant Accounting Policies (continued)

(f) Accounting Policies Applied from 1 July 2019 (continued)

(i) AASB 16 'Leases' (continued)

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.

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.

Critical accounting estimates

(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.

3. Summary of Significant Accounting Policies (continued)

(g) New Accounting Standards and Interpretations not yet adopted

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Group in this Financial Report. They are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business (Amendments to AASB 3)
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
- AASB 17 Insurance Contracts - July 2017

Group Performance

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

4. Revenue

Disaggregation of revenue from contracts with customers

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

a) Revenue by geographical locations	2020 $m	2019 $m
Sales revenue		
Australia	**2,718.5**	2,663.0
New Zealand	**341.7**	362.1
Total revenue and other income	**3,060.2**	3,025.1

b) Timing of revenue recognition	2020 $m	2019 $m
Sales revenue		
Service revenue	**2,757.0**	2,669.8
Construction revenue	**172.2**	173.6
Total revenue recognised over time	**2,929.2**	2,843.4
Sale of goods	**109.0**	181.7
Other income (i)	**22.0**	-
Total revenue recognised at a point in time	**131.0**	181.7
Total revenue and other income	**3,060.2**	3,025.1

(i) Other income represents Government wage subsidies received in New Zealand to assist businesses impacted from the COVID-19 pandemic.

Interest income	2020 $m	2019 $m
Third party entities	**0.5**	0.8
	0.5	0.8

4. Revenue (continued)

(a) Accounting Policies

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

Rendering of services

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

Recognition of variations, claims and incentives are recognised to the extent they are approved or enforceable under the contract. The amount of revenue is then recognised to the extent it is highly probable that a significant reversal of revenue will not occur.

Construction revenue

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

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

Sale of goods

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

Other revenue

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

Critical Accounting Estimates

Long-term contract revenue recognition

The Group has a limited number of long-term maintenance contracts that are engaged in a suite of related services under the one contract. Under AASB 15 the Group recognises revenue from both planned maintenance services and life cycle maintenance based on stage of completion using costs incurred. In recognising the revenue, the Group periodically re-forecasts the estimated total contract costs based on the different stage of completion of the contract.

5. Expenses

(a) Depreciation and amortisation

	2020 $m	2019 $m
Property, plant and equipment (i)	**31.4**	34.5
Laundries rental stock (i)	**35.0**	32.6
Right of use (ii)	**26.7**	-
Deferred fulfilment costs	**5.1**	7.6
Amortisation of identifiable intangible assets (iii)	**14.1**	15.8
Total depreciation and amortisation	**112.3**	90.5

(b) Finance expenses

	2020 $m	2019 $m
Interest charged from third party entities	**27.5**	32.8
Other borrowing costs	**2.1**	2.1
Unwinding of discount on provisions (iv)	**0.8**	4.4
Total finance expenses	**30.4**	39.3

(c) Other items included in the profit and loss

	2020 $m	2019 $m
Re-measurement of provisions	**3.2**	(16.4)
Operating lease expense (v)	**11.8**	42.3
Employee expenses - superannuation defined contribution plans	**76.3**	77.2

(i) Refer to Accounting Policy at Note 15
(ii) Refer to Accounting Policy at Note 16
(iii) Refer to Accounting Policy at Note 17
(iv) Refer to Accounting Policy at Note 10
(v) Refer to Accounting Policy at Note 13

(d) Accounting Policies

Deferred fulfilment costs

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

Defined contribution plans

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

6. Individually Significant Items

The following material items are included within the year ended 30 June 2020 of the Consolidated Statement of Profit or Loss and Other Comprehensive Income, and are relevant to an understanding of the Group's financial performance:

$m	Portfolio Restructure and Exit Costs (i)	Payroll Remediation Costs (ii)	Shareholder class action (iii)	Total
Direct employee expenses	27.9	8.9	-	**36.8**
Cost of goods used	5.2	-	-	**5.2**
Occupancy costs	5.9	-	-	**5.9**
Other expenses	51.8	7.4	34.0	**93.2**
Loss before interest and tax	90.8	16.3	34.0	**141.1**
Income tax benefit	26.7	4.5	10.2	**41.4**
Loss after income tax	64.1	11.8	23.8	**99.7**

(i) Represents restructuring costs incurred following management decision to scale back the Group's construction service offerings as well as cost associated in right sizing the business to reflect the new business model and remain competitive in a post COVID-19 environment. The material elements of the costs associated with the portfolio restructure programs are as follows:

- The Hospitality business has been the most acutely affected part of the Group through COVID-19 with all major event venues and other customer premises either closed or running at a fraction of capacity. The business has effectively been placed into hibernation, awaiting demand to recover, with cost plus arrangements in place for those customers requiring service. The Group is not eligible for the Federal Government's JobKeeper subsidy. Restructure costs of $46.3 million have been expensed to cover redundancies, asset impairments, stock write-offs, onerous contracts and other exit costs.
- The Group has exited the facilities based electrical and mechanical major construction market within the Infrastructure & Construction business unit. Restructure costs of $9.3 million have been expensed to cover redundancies and other exit costs.
- The Group has reduced management overhead through reduction in management layers, head-count, property footprint, systems and discretionary spend to better reflect the new operating model. Restructure costs of $11.0 million have been expensed.
- Costs of $5.7 million relating to the portfolio review of Laundries has been expensed in FY20.
- The carrying value of information systems has been impaired by $18.5 million. The impairment relates to applications and infrastructure in businesses that are being wound down.
- Other expenses includes a $6.8 million trade debtor impairment in respect of one customer being placed into administration.

(ii) Relates to the costs incurred in relation to the Group's assessment to confirm compliance with its Modern Awards and EBAs and ensure employees have been paid appropriately. Refer Note 2(a) for further details.

(iii) Represents the excess (net of insurance recoveries) to settle the shareholder claim action commenced against Spotless in the Federal Court of Australia in May 2017. The settlement was without admission of liability and includes interest and cost to the Applicant. This claim has been previously disclosed as a contingent liability.

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

7. Income Tax

(a) Income tax recognised in profit or loss	2020 $m	2019 $m
Current tax expense	**(50.7)**	(13.7)
Deferred tax benefit / (expense)	**73.1**	(22.1)
Income tax benefit / (expense)	**22.4**	(35.8)

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

	2020 $m	2019 $m
(Loss) / Profit before income tax	**(75.5)**	119.8
Income tax benefit / (expense) calculated at 30%	**22.7**	(35.9)
Items that increase / (decrease) tax benefit / (expense)		
Effect of tax rates in foreign jurisdictions	**0.3**	0.2
Non-deductible expenses	**(1.0)**	(0.5)
Non-taxable gains	**0.1**	0.7
Other	**0.3**	(0.3)
	(0.3)	0.1
Income tax benefit / (expense)	**22.4**	(35.8)
Income tax benefit reported on comprehensive income	**1.1**	1.4
Total income tax benefit / (expense)	**23.5**	(34.4)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. The Group is also subject to a tax rate in New Zealand of 28%.

(c) Deferred tax assets	2020 $m	Restated 2019 $m
Arising from temporary differences		
Provisions, including employee benefits	**72.5**	60.9
Intangible assets	**1.8**	-
Property, plant and equipment	**38.5**	7.2
Trade receivables and contract assets	**6.3**	17.0
Trade payables and contract liabilities	**30.5**	20.7
Other	**2.3**	-
	151.9	105.8
Arising from tax losses or offsets		
Revenue losses	**50.0**	28.3
Deferred tax assets	**201.9**	134.1

The Australian group has recognised a $49.9 million (2019: $28.3 million) deferred tax asset at 30 June 2020 in respect of income tax losses. These continue to be carried on the Statement of Financial Position as the Directors believe it is probable that future taxable profits will be available against which the Group can utilise the benefits. These losses are also subject to satisfying the loss recoupment rules in the Income Tax Assessment Act 1997. The New Zealand group has recognised a $0.1 million (2019: Nil) deferred tax asset at 30 June 2020 in respect of income tax losses in Taylors Laundries Limited.

7. Income Tax (continued)

(d) Deferred tax liabilities

	2020 $m	2019 $m
Arising from temporary differences		
Intangible assets	**(15.4)**	(31.7)
Property, plant and equipment	**(51.5)**	(12.7)
Trade receivables and contract assets	**(6.8)**	(3.0)
Other	**(0.4)**	(1.0)
Deferred tax liabilities	**(74.1)**	(48.4)

(e) Income tax recognised directly in equity

The following current and deferred amounts were charged directly to equity during the year:

	2020 $m	2019 $m
Deferred tax asset/liability		
Debt hedging reserve	**(1.1)**	(1.4)

(f) Accounting Policies

Current tax

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

Deferred tax

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

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

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

Current and deferred tax for the year

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

7. Income Tax (continued)

(f) Accounting Policies (continued)

Tax consolidation

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

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

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

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

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

(g) Critical Accounting Estimates

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

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

Working Capital

This section provides information that is relevant to understanding the working capital position and performance of the Group for the financial year, including the accounting policies applied and the critical accounting estimates and assumptions. The Group defines Working Capital as the total of current trade receivables and contract assets, inventory, prepayments, trade payables and contract liabilities, current provisions and other current creditors.

8. Trade Receivables and Contract Assets

	2020 $m	2019 $m
Current		
Trade receivables	**211.0**	212.3
Allowance for doubtful debts (i)	**(11.7)**	(0.9)
	199.3	211.4
Contract debtors (a)	**203.4**	197.2
Other receivables	**2.9**	7.4
Total current trade receivables and contract assets	**405.6**	416.0
Non-current		
Trade receivables	**19.1**	19.2
Contract assets (a)	**70.1**	57.1
Total non-current trade receivables and contract assets	**89.2**	76.3
(a) Contract balances		
Contract assets	**199.5**	194.6
Retentions and capitalised costs to fulfil contracts	**3.9**	2.6
Current contract debtors	**203.4**	197.2
Non-current contract assets	**70.1**	57.1
Total contract debtors	**273.5**	254.3
Current contract liabilities (Note 9)	**37.9**	54.0
Non-current contract liabilities	**7.7**	11.9
Total contract liabilities	**45.6**	65.9
Net amount	**227.9**	188.4

As of 30 June 2020, the aggregate amount of the transaction price allocated to the remaining performance obligations is $4,814.5 million. The Group will recognise this revenue as the performance obligations are satisfied. Approximately 29% of the remaining performance obligations are expected to occur within the next five years; with the remaining 71% of performance obligations, being related to long-term service maintenance contracts, ranging up to 42 years.

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

8. Trade Receivables and Contract Assets (continued)

(i) Allowance for credit losses

The Group's trade receivables and contract assets are disaggregated based on their expected credit risks between Government and Private (non-government) customers. An analysis of the balances is presented below:

	2020 $m	2019 $m
Government – not due	216.9	206.5
Government – less than 90 days past due	4.7	4.7
Government – more than 90 days	2.6	2.6
Private – not due	252.1	249.4
Private – less than 90 days past due	19.3	19.4
Private – more than 90 days past due	8.0	3.2
Total Gross Carrying Amount	**503.6**	485.8
Allowance for credit losses	**(11.7)**	(0.9)

The credit risk associated with Government balances are considered to be nil (FY19: nil) due to the high credit worthiness of the counterparties.

Historic credit losses on Private balances has averaged less than 1% (calculated based on actual write-off subsequently recognised as a percentage of the total of trade receivable and contract assets, over the previous 4 years (depending on information available). The allowance for credit losses recorded is 2.3% (2019: 0.2%) of the trade receivables and contract assets with the difference between the historic levels of credit losses and the level of provisioning recorded representing estimated additional expected credit losses present in the current portfolio of trade receivables and contract assets primarily driven by expected increases in credit risk as a result of the impact of economic downturn resulting from the COVID-19 pandemic on counterparties.

In assessing expected credit losses ("ECL") as at 30 June 2020, the Group has considered the increased risk arising from the economic impacts of COVID-19 pandemic. The Group has assessed ECLs by segmenting the portfolio of trade receivables and contract assets by customer (i.e. Government and non-Government) to better assess inherit credit risk. As stated above, Government related balances have been considered to have no credit risk. For private counterparties, Management has individually assessed the credit rating of those private counterparties which have significant concentrations of credit risk.

As at 30 June 2020, the carrying value of the Group's most significant customer (Construction customer) was $27.2 million (2019: $9.6 million).

During the year the Group has impaired $6.8 million (Note 6) in respect of one customer being placed into administration.

(a) Accounting Policies

Trade receivables and other receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less an allowance for impairment.

Contract assets primarily relate to the Group's rights to consideration for work performed but not billed at the reporting date. The contract assets are transferred to trade receivables when the rights have become unconditional. This usually occurs when the Group issues an invoice in accordance with contractual terms to the customer.

8. Trade Receivables and Contract Assets (continued)

(a) Accounting Policies (continued)

Impairment

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

The impairment model applies to financial assets measured at amortised cost or FVOC (except for investments in equity instruments). Under AASB 9, loss allowances are measured on either of the following bases:

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

The Group has applied the simplified approach to recognise lifetime expected credit losses from trade receivables, contact assets and finance lease receivables permitted by AASB 9.

In the prior year, the allowance for doubtful debt was made for the estimated recoverable trade receivable amounts arising from services provided determined in reference to past default experience.

(b) Critical Accounting Estimates

Credit risk represents the risk that a counter party will fail to perform an obligation causing a financial loss to the Group. The Group minimises credit risk by undertaking transactions with a large number of customers in various industries and countries with a focus on customers and sectors with a high credit worthiness. A credit policy is in place and exposure to credit risk is monitored on an ongoing basis.

Group uses historical information as a basis for the estimation of expected credit losses and then adjusts its assessment of credit risk based on current macro/micro-economic conditions however, Management needs to apply judgement in doing this assessment.

9. Current Trade Payables and Contract Liabilities

	2020	Restated 2019
	$m	$m
Trade payables (i)	**213.3**	244.3
Contract liabilities	**37.9**	54.0
Accruals	**214.9**	123.3
Other	**113.3**	64.5
	579.4	486.1

(i) Credit periods range from 1 day prompt payment to 65 days. The average credit period is approximately 36 days. Interest has not been incurred on any outstanding balances.

(a) Accounting Policy

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within the credit timeframe.

Contract liabilities primarily relate to the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are recognised as revenue when work is performed under the contract.

10. Provisions

	2020		2019	
	Current $m	Non-current $m	Current $m	Non-current $m
Employee benefits (i)	**93.5**	**10.9**	95.5	10.3
Public liability	**2.4**	**-**	2.3	-
Environmental remediation	**4.7**	**1.2**	1.6	5.5
Property make-good	**2.2**	**6.6**	3.0	4.1
Onerous contracts	**13.8**	**12.5**	21.6	60.7
	116.6	**31.2**	124.0	80.6

(i) The current provision for employee benefits includes $34.5 million (2019: $35.5 million) of vested long service leave entitlements.

Reconciliations

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

	Public liability $m	Environmental remediation $m	Property make-good $m	Onerous contracts $m
Balance at 30 June 2018	**2.7**	**10.9**	**8.8**	**40.9**
Impact on adoption of AASB 15	-	-	-	85.2
Increased during the year	1.4	-	-	2.0
Utilised during the year	(1.8)	(2.1)	(0.2)	(33.6)
Written back during the year	-	(2.0)	(1.7)	(16.1)
Unwind of discount during the year	-	0.3	0.2	3.9
Balance at 30 June 2019	**2.3**	**7.1**	**7.1**	**82.3**
Assumed in a business combination	-	-	0.5	-
Impact on adoption of AASB 16 (Note 16)	-	-	-	(34.7)
Increased during the year (i)	1.6	0.1	1.7	5.2
Utilised during the year	(1.5)	(1.5)	(0.3)	(18.3)
Written back during the year	-	-	(0.4)	(8.6)
Unwind of discount during the year	-	0.2	0.2	0.4
Balance at 30 June 2020	**2.4**	**5.9**	**8.8**	**26.3**
Current Provisions	**2.4**	**4.7**	**2.2**	**13.8**
Non-Current Provisions	**-**	**1.2**	**6.6**	**12.5**

(i) Includes amounts as disclosed in Note 6.

Employee benefits – a liability is recognised for benefits accruing to employees in respect of wages and salaries and leave entitlements.

Public liability – represents the estimate of the future sacrifice of economic benefits that will be required under the Group's insured public liability exposure relating to claims below the insured excess. The estimate is based on historical trends and may vary as a result of claims.

Environmental remediation – comprises the estimated costs to restore and remediate certain properties.

10. Provisions (continued)

Property make-good – is the estimated restoration cost to “make-good” premises which are currently occupied under operating leases or operating sites at customer premises.

Onerous contracts – comprises customer contracts. Onerous contracts exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received.

(a) Accounting Policies

Provisions are recognised when:

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

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

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

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

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

(b) Critical Accounting Estimates

(i) Environmental provisions

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

(ii) Property make-good provisions

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

(iii) Onerous contracts provisions

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

(iv) Long service leave provisions

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

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

Capital Structure and Financial Risk Management

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

11. Cash and Cash Equivalents

	2020 $m	2019 $m
(a) Reconciliation of cash and cash equivalents		
Cash at the end of the year as shown in the cash flow statement is reconciled to the related items in the Statement of Financial Position as follows:		
Cash and cash equivalents	**122.9**	109.9
	122.9	109.9

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

	2020 $m	2019 $m
(Loss) / Profit for the year	**(53.1)**	84.0
Impairment and write-downs of intangible assets (Note 6)	**18.5**	-
Property, plant and equipment write-downs (Note 6)	**8.0**	-
Depreciation and amortisation	**112.3**	90.5
(Loss) / Profit from sales of non-current assets	**0.9**	(0.8)
Movement in deferred tax balances	**(29.3)**	24.0
Movement in income tax payable	**(7.3)**	6.7
Changes in assets and liabilities, net of effects from acquisition of businesses:		
(Increase) / decrease in assets:		
Receivables	**1.9**	(77.4)
Inventories	**5.0**	-
Prepayments	**(0.9)**	3.0
Increase / (decrease) in liabilities:		
Trade payables	**30.2**	34.7
Shareholder class action	**34.0**	-
Other liabilities	**27.4**	21.3
Provisions	**(19.5)**	(46.1)
Net cash provided by operating activities	**128.1**	139.9

(c) Accounting Policy

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

12. Financial Instruments

(a) Capital risk management

The Group's capital risk management objective is to safeguard the ability to continue as a going concern, in order to continue to provide returns to stakeholders whilst maintaining an optimal capital structure that reduces the cost of capital.

The Board of Directors regularly reviews the capital structure by considering the absolute and relative cost and risks associated with each class of capital, market conditions, stakeholder expectations and current market practices. In order to affect capital management initiatives to maintain or adjust the capital structure, adjustments may be made to the amount of permitted distributions, the issuance or return of equity capital to shareholders, or the procurement or retirement of debt.

Operating cash flows are used to maintain and expand the assets of the Group, as well as to make routine payments of tax, interest, dividends and debt. To meet its anticipated funding requirements the Group uses a portfolio of borrowing facilities.

The capital structure of the Group was as follows:

	2020 $m	2019 $m
Cash and cash equivalents (Note 11(a))	**(122.9)**	(109.9)
Current borrowings		
Loan at amortised cost	**0.6**	-
Finance lease liabilities secured at amortised cost (i) (ii) (iii)	**-**	2.7
Current derivatives at fair value	**4.8**	3.1
Non-current borrowings		
Bank loans at amortised cost	**766.9**	779.8
Finance lease liabilities secured at amortised cost (i) (ii) (iii)	**-**	7.3
Non-current derivatives at fair value	**3.8**	1.8
Issued capital, reserves and accumulated losses	**298.6**	396.1
Total capital	**951.8**	1,080.9

(i) Secured by the assets leased.
(ii) Upon adoption of AASB 16 Leases, the 30 June 2019 lease liabilities that were disclosed as part of borrowings in the comparative figures above, have now been presented as part of the lease liability balances in Note 13.
(iii) 30 June 2020 excludes finance leases. Refer Note 13.

12. Financial Instruments (continued)

(b) Financial assets and financial liabilities

	2020 $m	Restated 2019 $m
Financial Assets		
Cash and cash equivalents	**122.9**	109.9
Trade receivables and contract assets	**494.8**	492.3

Trade receivables and contract assets are non-interest bearing assets that are held to maturity. The carrying value may be affected by changes in the credit risk of the counterparties.

	2020 $m	Restated 2019 $m
Financial Liabilities		
Borrowings	**(767.5)**	(789.8)
Trade payables and contract liabilities	**(579.4)**	(486.1)
Non-current liability	**-**	(7.5)
Derivatives at fair value through OCI	**(8.6)**	(4.9)

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

Summary of borrowing arrangements

Syndicated bank loan facility:

The Group has an $880.2 million syndicated bank loan facility which is provided on an unsecured, committed basis and comprises Australian Dollar and New Zealand Dollar Tranches maturing in financial years 2023 and 2024.

Bilateral bank loan facilities:

The Group has a total of $145.6 million in bilateral loan facilities which are unsecured, committed facilities with maturities in financial years 2021 and 2022.

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

As at 30 June 2020, the Group had total committed facilities of $1,025.8 million (2019: $1,053.4 million), of which $770.8 million is drawn (2019: $783.4 million).

The maturity profile of the Group's borrowing arrangements by financial year is represented in the below table:

	Bilateral Loan Facilities $m	Syndicated Loan Facilities $m	Total $m
Maturing in the period 1 July 2020 to 30 June 2021	**0.6**	**-**	**0.6**
Maturing in the period 1 July 2021 to 30 June 2022	**145.0**	**-**	**145.0**
Maturing in the period 1 July 2022 to 30 June 2023	**-**	**420.2**	**420.2**
Maturing in the period 1 July 2023 to 30 June 2024	**-**	**460.0**	**460.0**
	145.6	**880.2**	**1,025.8**

12. Financial Instruments (continued)

(i) Accounting Policies

Financial assets at amortised cost and the effective interest rate method

A financial asset is measured at amortised cost if the following conditions are met:

- the objective of the Group's business model in relation to those instruments is to hold the asset to collect the contractual cash flows;
- the contractual cash flows give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding; and
- the Group does not irrevocably elect at initial recognition to measure the instrument at fair value through profit or loss to minimise an accounting mismatch.

Amortised cost instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the carrying amount of amortised cost financial instruments is determined using the effective interest rate method, less any impairment losses.

Financial assets at fair value through other comprehensive income

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

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

At initial recognition the Group may make an irrevocable election (on an instrument-by-instrument basis) to recognise the change in fair value of investments in equity instruments in other comprehensive income. This election is only permitted for equity instruments that are not held for trading purposes.

These instruments are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented within equity in the investment revaluation reserve. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Dividends or other distributions received from these investments are recognised in the profit or loss when the entity's right to receive payment or the dividend is established.

Financial liabilities

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

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of: (i) the amount of the obligation under the contract, as determined under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less (where appropriate) cumulative amortisation in accordance with revenue recognition policies described in Note 4(a).

12. Financial Instruments (continued)

(c) Financial covenants

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

Financial covenants are reviewed by the Spotless Board and reported to financiers on a semi-annual basis. The Group was in compliance with its financial covenants as at 30 June 2020.

(d) Hedging activities and derivatives

Derivatives not designated as hedging instruments

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

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

Cash flow hedges

Interest Rate Risk

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

2020

The Group did not execute any further interest rate swaps in the year ended 30 June 2020.

The cash flow hedges of the floating rate debt were assessed to be highly effective and the fair value of all interest rate hedges is ($8.5) million.

Outstanding Floating for Fixed Contracts

	NZD Average Fixed	Notional Amount $m NZD	AUD Average Fixed	Notional Amount $m AUD	**Total Notional Amount $m AUD**
Interest Rate Swaps					
Less than 1 year	-	-	1.24%	150.0	150.0
1-3 years	1.46%	100.0	1.25%	405.0	498.5

2019

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

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

The cash flow hedges of the floating rate debt were assessed to be highly effective and the fair value of all interest rate hedges is ($4.9) million.

12. Financial Instruments (continued)

(d) Hedging activities and derivatives (continued)

	NZD Average Fixed	Notional Amount $m NZD	AUD Average Fixed	Notional Amount $m AUD	**Total Notional Amount $m AUD**
Interest Rate Swaps					
Less than 1 year	2.21%	100.0	2.14%	450.0	545.6
1-3 years	1.46%	100.0	1.24%	420.0	515.6
3 years +	-	-	1.28%	135.0	135.0

(i) Accounting Policies

Derivative financial instruments

Derivatives are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured at their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);
- hedges of highly probable forecast transactions or the foreign currency risk in an unrecognised firm commitment (cash flow hedge); or
- hedges of a net investment in a foreign operation.

The fair value of derivatives is presented as a non-current asset or liability if the remaining maturity of the instrument is more than 12 months, and it is not expected to be realised or settled within 12 months.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts, and the host contracts are not measured at fair value with changes in the fair value recognised in profit or loss.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

The Group has only entered into hedges of the type classified as cash flow hedges. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges recognised in OCI and later re-classified to profit or loss when the hedged item affects profit or loss. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss as part of other expenses or other income. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the profit or loss as the recognised hedged item. When the forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

12. Financial Instruments (continued)

(e) Measurement of fair values

The carrying amount of financial assets or liabilities recognised in the consolidated financial statements approximates to their fair value. The fair value of derivative financial instruments, as well as the methods used to estimate the fair value, is the Level 2 Observable Inputs method using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

(f) Financial risk management

The Group's activities create an exposure to a number of financial risks including market risk (interest rate and foreign exchange), liquidity risk and credit risk.

The Group's financial risk management objective is to minimise potential adverse effects on financial performance arising from changes in financial risk. Financial risk is managed centrally by Group Treasury under the direction of the Board of Directors. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Interest Rate Risk

Interest rate risk is the risk that a financial instrument's fair value or future cash flows will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk arises primarily from financial instruments with a variable rate of interest. Financial instruments with fixed interest rates do not create variable cash flow exposure.

The Group manages interest rate risk under a Board approved Treasury Policy and interest rate exposure and compliance with Policy is regularly reported to the Board of Directors.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group manages this risk by using floating-to-fixed interest rate swaps for a portion of variable rate borrowings. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group enters into and designates a selection of interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

At 30 June 2020, after taking into account the effect of interest rate swaps and other fixed-rate borrowings, $649.0 million (2019: $555.6 million) or 84% (2019: 70%) of the Group's borrowings are at a fixed rate of interest.

The following table details the sensitivity to earnings and equity resulting from a change in Australia and New Zealand interest rates. The sensitivity analysis assumes a constant bank credit margin and a parallel shift in the interest rate yield curve.

	2020 $m	2019 $m
100 basis point p.a. increase		
Net profit	**-**	(1.4)
Equity	**9.3**	13.9
100 basis point p.a. decrease		
Net profit	**-**	1.4
Equity	**(9.5)**	(14.2)

A positive number indicates an increase in net profit and equity.

A ± 100 basis point (1.00%) change has been used in this sensitivity analysis on the basis that this change is representative of a possible change in interest rates applicable to the Group on variable rate instruments and interest rate swaps.

12. Financial Instruments (continued)

(f) Financial risk management (continued)

Foreign Currency Risk

Foreign currency risk is the risk the value of a financial commitment (including a forecast transaction) or a recognised financial instrument will fluctuate due to changes in market foreign exchange rates. The Group's exposure to foreign exchange risk relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency) and the Group's net investments in foreign subsidiaries.

Additionally, the Group operates internationally and is exposed to foreign exchange risk where its subsidiaries do not transact in the subsidiary's functional currency.

The Group regularly monitors foreign exchange exposure and reports this to the Board of Directors. This risk is managed using a combination of natural hedging and foreign exchange derivative transactions. Operating cash flows in foreign currencies are used to meet interest and principal repayments under foreign currency borrowings.

Liquidity Risk

Liquidity risk is the risk the Group will not have sufficient funds to meet its financial commitments as and when they fall due.

The Group's liquidity risk is managed under a Board approved Treasury Policy and is reported to the Board of Directors. Liquidity risk is managed through frequent and periodic cash flow forecasting and analysis, and by ensuring the Group maintains access to a prescribed minimum amount of unutilised committed debt facilities and available cash balances. At 30 June 2020, the Group had unutilised committed debt facilities of $255.0 million (2019: $270.0 million).

The Group's contractual maturity date for its financial liabilities is as follows. The tables are based upon undiscounted cash flows.

Non-derivative financial liabilities	Average Interest Rate	Less than 1 year	1 to 3 years	More than 3 years	**Total**
2020		$m	$m	$m	**$m**
Trade payables and contract liabilities	-	(579.4)	-	-	**(579.4)**
Bank loans (i)	2.47%	(0.6)	(470.2)	(300.0)	**(770.8)**
		(580.0)	(470.2)	(300.0)	**(1,350.2)**
2019					
Trade payables and contract liabilities	-	(486.1)	-	-	**(486.1)**
Bank loans (i)	3.44%	-	(783.4)	-	**(783.4)**
Finance lease liabilities	5.80%	(2.7)	(7.2)	(0.1)	**(10.0)**
		(488.8)	(790.6)	(0.1)	**(1,279.5)**

(i) Excludes deferred borrowing costs of $3.3 million (2019: $3.6 million) and interest cash flows.

(g) Credit risk management

Credit risk refers to the risk that a financial counterparty will default on its contractual obligations in respect of a financial instrument, resulting in a loss to the Group.

Trade receivables and contract assets arise from a large number of customers, spread across diverse industries and geographical areas. A credit evaluation is performed at the onset of material contracts to assess the financial condition of the counterparty and a credit evaluation is maintained over the life of the contract to take account of any changes in the risk profile of the counterparty.

12. Financial Instruments (continued)

(g) Credit risk management (continued)

Where possible, a bank guarantee or performance bond, or parent guarantee from creditworthy counterparty is sought to secure a counterparty's contractual payment obligations.

Financial counterparty credit limits and the related credit acceptability of financial counterparties are set by a Board approved Treasury Policy that is subject to annual review to ensure it remains relevant to the external environment and reflects the Group's risk appetite at all times. The Treasury Policy sets clear parameters for determining acceptable financial counterparties and limits the exposure the Group may have at any one time to any individual financial counterparties to mitigate financial loss due to a default by a counterparty. No material exposure is considered to exist by virtue of the non-performance of any financial counterparty.

Credit risk on derivative financial instruments and cash balances held with financial counterparties is managed by Group Treasury with transactions only made with approved counterparties that have a minimum investment grade rating from Standard & Poor's of A- (or equivalent from Moody's or Fitch rating agencies).

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

13. Lease Liabilities

	2020 $m	2019 $m
Contractual undiscounted cash flows		
Less than one year	**38.2**	3.0
One to five years	**74.1**	7.3
More than five years	**107.5**	-
Total undiscounted lease liabilities	**219.8**	10.3
Current	**32.9**	2.7
Non-current	**147.0**	7.3
Lease liabilities included in the Consolidated Statement of Financial Position	**179.9**	10.0

Included in the lease liabilities as at 30 June 2020 is $6.4 million of current and $0.8 million of non-current lease liabilities that have previously been disclosed as part of Borrowings.

(a) Accounting Policies

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.

13. Lease Liabilities (continued)

(a) Accounting Policies (continued)

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.

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.

(b) Critical Accounting Estimates

(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 periods.

13. Lease Liabilities (continued)

The expense charged to profit or loss for low value and short-term leases (excluded from lease liabilities) is analysed as:

Operating lease expenses	2020 $m	2019 $m
Operating lease expenses relating to land and buildings	**0.4**	19.8
Operating lease expenses relating to plant and equipment	**11.4**	22.5
	11.8	42.3

14. Equity

Ordinary shares issued and fully paid	2020 '000	2020 $m	2019 '000	2019 $m
Balance at the beginning of the financial year	**1,102,240**	**993.8**	1,102,240	993.8
Ordinary shares issued upon exercise of rights and options (i)	**-**	**-**	-	-
Balance at the end of the financial year	**1,102,240**	**993.8**	1,102,240	993.8

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

A provision is recognised for dividends when they have been declared, determined or publicly recommended by the Directors on or before the balance sheet date. The Directors have determined not to pay a final dividend for the year ended 30 June 2020.

Franking credit balance

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

	2020 $m	2019 $m
Australian franking account balance as at the end of financial year at 30% (2019: 30%)	**36.7**	13.8
New Zealand franking account balance as at the end of financial year at 28% (2019: 28%)	**11.1**	5.9
	47.8	19.7

Accounting Policies

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction to the associated equity instrument's proceeds. Transaction costs are the costs incurred directly in connection with the issue of those equity instruments, and would not have been incurred had those instruments not been issued.

Capital Employed

This section provides information relating to the tangible and intangible operating assets of the Group (as well as leases) including the accounting policies applied and the critical accounting estimates and assumptions.

15. Property, Plant and Equipment

Consolidated	Freehold Land $m	Buildings $m	Leasehold Improvements $m	Plant and Equipment $m	Laundries Rental Stock $m	Total $m
Estimated useful lives	Not applicable	50 years	2 - 25 years	2 - 25 years	18 months - 5 years	
Gross carrying amount						
Balance at 1 July 2018	44.6	9.1	38.4	271.0	243.7	**606.8**
Additions acquired through business combination	-	-	-	0.8	-	**0.8**
Additions	-	-	9.8	27.0	35.4	**72.2**
Disposals	(2.6)	(0.6)	(2.3)	(11.6)	(130.0)	**(147.1)**
Net foreign exchange variance	-	-	0.3	1.5	1.4	**3.2**
Balance at 30 June 2019	**42.0**	**8.5**	**46.2**	**288.7**	**150.5**	**535.9**
Additions	-	3.0	2.2	27.3	33.5	**66.0**
Disposals	-	-	(0.6)	(5.0)	-	**(5.6)**
Effect of adoption AASB 16	-	-	-	(23.4)	-	**(23.4)**
Net foreign exchange variance	-	-	(0.2)	(0.3)	(0.4)	**(0.9)**
Balance at 30 June 2020	**42.0**	**11.5**	**47.6**	**287.3**	**183.6**	**572.0**
Accumulated depreciation						
Balance at 1 July 2018	**-**	**(1.3)**	**(19.2)**	**(114.5)**	**(202.5)**	**(337.5)**
Depreciation expense	-	(0.3)	(4.9)	(29.3)	(32.6)	**(67.1)**
Disposals	-	0.1	1.5	9.3	129.8	**140.7**
Net foreign exchange variance	-	-	(0.2)	(0.7)	(1.1)	**(2.0)**
Balance at 30 June 2019	**-**	**(1.5)**	**(22.8)**	**(135.2)**	**(106.4)**	**(265.9)**
Depreciation expense	-	(0.3)	(4.7)	(26.4)	(35.0)	**(66.4)**
Impairment expense (i)	-	-	-	(4.7)	(3.3)	**(8.0)**
Disposals	-	-	0.3	2.9	-	**3.2**
Effect of adoption AASB 16	-	-	-	14.1	-	**14.1**
Net foreign exchange variance	-	-	0.1	0.4	0.3	**0.8**
Balance at 30 June 2020	**-**	**(1.8)**	**(27.1)**	**(148.9)**	**(144.4)**	**(322.2)**
Net book value						
As at 30 June 2019	42.0	7.0	23.4	153.5	44.1	270.0
As at 30 June 2020	**42.0**	**9.7**	**20.5**	**138.4**	**39.2**	**249.8**

(i) Includes amounts as disclosed in Note 6.

15. Property, Plant and Equipment (continued)

(a) Capital expenditure commitments

	2020 $m	2019 $m
Plant and equipment	**24.2**	19.7
	24.2	19.7

(b) Accounting Policy

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

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

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

(c) Critical Accounting Estimates

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

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

16. 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.

30 June 2020 **$m**	**Leasehold Property**	**Motor Vehicles**	**Plant and Equipment**	**Total**
Cost				
Balance at 1 July 2019	125.8	18.0	12.1	**155.9**
Onerous provision (Note 9)	(34.7)	-	-	**(34.7)**
Adjusted balance at 1 July 2019	91.1	18.0	12.1	**121.2**
Additions	3.6	15.4	0.6	**19.6**
Remeasure	(4.7)	1.6	-	**(3.1)**
Disposals	(1.6)	(0.4)	-	**(2.0)**
Net foreign exchange difference	(0.2)	-	(0.1)	**(0.3)**
Cost at 30 June 2020	**88.2**	**34.6**	**12.6**	**135.4**
Accumulated depreciation				
Balance at 1 July 2019	-	-	-	-
Depreciation charge for the period	(11.6)	(12.1)	(3.0)	(26.7)
Disposals	0.1	0.2	-	0.3
Accumulated depreciation as at 30 June 2020	**(11.5)**	**(11.9)**	**(3.0)**	**(26.4)**
Increase in impairment (i)	(3.3)	-	-	**(3.3)**
Net book value as at 30 June 2020	**73.4**	**22.7**	**9.6**	**105.7**

(i) Includes amounts as disclosed in Note 6

The right of use assets above serve as security against the lease liabilities presented in Note 13.

(a) Accounting Policy

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.

17. Intangible Assets	Customer contracts $m	Software development $m	Total $m
Estimated useful lives	6-30 years	12 years	
Cost			
Balance at 1 July 2018	116.6	101.9	**218.5**
Additions from software development	-	1.3	**1.3**
Balance at 30 June 2019	**116.6**	**103.2**	**219.8**
Additions from software development	-	0.2	**0.2**
Balance at 30 June 2020	**116.6**	**103.4**	**220.0**
Accumulated amortisation and impairment			
Balance at 30 June 2018	**(55.1)**	**(40.8)**	**(95.9)**
Amortisation for the year	(11.0)	(4.8)	**(15.8)**
Balance at 30 June 2019	**(66.1)**	**(45.6)**	**(111.7)**
Amortisation for the year	(9.1)	(5.0)	**(14.1)**
Impairment (i)	-	(18.5)	**(18.5)**
Balance at 30 June 2020	**(75.2)**	**(69.1)**	**(144.3)**
Net book value			
As at 30 June 2019	50.5	57.6	108.1
As at 30 June 2020	**41.4**	**34.3**	**75.7**

(j) Includes amounts as disclosed in Note 6.

(a) Accounting Policies

Intangible assets acquired in a business combination

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

Customer contracts

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

17. Intangible Assets (continued)

(a) Accounting Policies (continued)

Software development

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

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

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

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

Impairment of assets

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

An impairment loss is recognised in profit and loss if the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount. Refer to Note 21 for details on the calculation of recoverable amounts.

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

(b) Critical Accounting Estimates

Useful lives of acquired customer contracts

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

Impairment of intangible assets (including software development costs)

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

18. Other Non-Current Assets

	2020	2019
	$m	$m
Deferred fulfilment costs	**8.7**	15.4
Other	**1.5**	0.9
	10.2	16.3

(a) Accounting Policy

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

Group Structure and Related Parties

This section provides information on the Group's structure, encompassing controlled entities, business acquisitions, related parties and associated transactions, as well as share-based payments and the impact these transactions had on the Group's financial performance and position.

19. Controlled Entities

Parent entity (incorporated in Australia)

Spotless Group Holdings Limited

The financial statements of the Group include the following wholly-owned entities with ownership interest of 100% (all are incorporated in Australia unless otherwise noted):

Name of entity	Ref	Name of entity	Ref
Pacific Industrial Services FinCo Pty Ltd	(a) (c)	Aladdins Holdings Pty. Limited	(a) (c)
Pacific Industrial Services BidCo Pty Ltd	(a) (c)	Aladdin Laundry Pty Limited	(a) (c)
Spotless Treasury Pty Limited	(a) (c)	Aladdin Group Services Pty Limited	(a) (c)
Spotless Group Limited	(a) (c)	Aladdin Linen Supply Pty Limited	(a) (c)
Berkeley Challenge Pty Limited	(a) (c)	International Linen Service Pty Ltd	(a) (c)
Berkeley Challenge (Management) Pty Limited	(a) (c)	A.E. Smith & Son Proprietary Ltd	(a)
Berkeleys Franchise Services Pty Ltd	(a) (c)	AE Smith & Son (SEQ) Pty Ltd	(a)
Berkeley Railcar Services Pty Ltd	(a) (c)	AE Smith & Son (NQ) Pty Ltd	(a)
Cleandomain Proprietary Limited	(a) (c)	A.E. Smith Service Holdings Pty Ltd	(a)
Cleanevent Australia Pty. Ltd.	(a) (c)	A.E. Smith Service Pty Ltd	(a)
Cleanevent Holdings Pty. Ltd	(a) (c)	A.E. Smith Service (SEQ) Pty Ltd	(a)
Cleanevent International Pty. Limited	(a) (c)	AE Smith Building Technologies Pty Ltd	(a)
Cleanevent Technology Pty Ltd	(a) (c)	Emerald ESP Pty Ltd	(a)
Ensign Services (Aust.) Pty. Ltd.	(a) (c)	Utility Services Group Limited	(a) (c)
Nationwide Venue Management Pty Limited	(a) (c)	Utility Services Group Holdings Pty Ltd	(a) (c)
Riley Shelley Services Pty Limited	(a) (c)	UAM Pty Ltd	(a) (c)
Sports Venue Services Pty Ltd	(a) (c)	Skilltech Consulting Services Pty. Ltd.	(a) (c)
Spotless Defence Services Pty Ltd	(a) (c)	Skilltech Metering Solutions Pty Ltd.	(a) (c)
Spotless Facility Services Pty Ltd	(a) (c)	Fieldforce Services Pty Ltd	(a) (c)
Spotless Facility Services (NZ) Limited	(b)	Infrastructure Constructions Pty Ltd	(a) (c)
Spotless Holdings (NZ) Limited	(b)	Trenchless Group Pty Ltd	(a) (c)
Spotless Services International Pty Ltd	(c)	Monteon Pty Ltd	(a) (c)
Spotless Investment Holdings Pty Ltd	(a) (c)	Errolon Pty Ltd	(a) (c)
Spotless Management Services Pty Ltd	(a) (c)	Spotless Financing Pty Limited	(a) (c)
Spotless Property Cleaning Services Pty Ltd	(a) (c)	Spotless Securities Plan Pty Ltd	(c)
Spotless Services Australia Limited	(a) (c)	Nuvogroup(Australia) Pty Ltd	(a) (c)
Spotless Services Limited	(a) (c)	NG-Serv Pty Ltd	(a) (c)
SSL Asset Services (Management) Pty Ltd	(a) (c)	Airparts Fabrication Pty Ltd	(a)
Asset Services (Aust) Pty Ltd	(a) (c)	Airparts Holdings Pty Ltd	(a)
Bonnyrigg Management Pty. Limited	(c)	Airparts Fabrication Unit Trust	(a)
SSL Facilities Management Real Estate Services Pty Ltd	(a) (c)	Envar Engineers & Contractors Pty Ltd	(a)
SSL Security Services Pty Ltd	(a) (c)	Envar Holdings Pty Ltd	(a)
Taylors Two Two Seven Pty Ltd	(b)	Envar Installation Pty Ltd	(a)
Taylors Laundries Limited	(b)	Envar Service Pty Ltd	(a)
National Community Enterprises	(d)	Cleanevent Middle East FZ LLC	(d) (e)

19. Controlled Entities (continued)

(a) These wholly-owned entities are relieved from the requirement to prepare audited accounts under the Australian Securities and Investments Commission ("ASIC") Corporations Instrument 2016/785 (which supersedes ASIC Class Order 98/1418). Under this instrument, Spotless Group Holdings Limited and each of these wholly owned entities are required to enter into a Deed of Cross Guarantee whereby each company to the Deed guarantees to each creditor payment in full of any debt.

(b) Incorporated in New Zealand.

(c) These wholly-owned entities all form part of the tax consolidated group of which Spotless Group Holdings Limited is the head entity.

(d) Entity is currently undergoing liquidation / dissolution.

(e) Incorporated in the Middle East.

Set out below are the consolidated income statement and balance sheet of those wholly-owned entities that are relieved from the requirement to prepare accounts under ASIC Corporations Instrument 2016/785 as they are party to the deed of cross guarantee with Spotless Group Holdings Limited:

	Consolidated 2020 $m	Consolidated 2019 $m
Income Statement		
Revenue	2,716.9	2,654.3
Other income	2.0	8.7
	2,718.9	2,663.0
Direct employee and subcontractor expenses	(2,036.3)	(1,835.4)
Raw materials, consumables and finished goods used	(385.3)	(400.3)
Other expenses	(255.6)	(206.1)
Profit before depreciation, finance costs and income tax (EBITDA)	41.7	221.2
Depreciation and amortisation expense	(98.9)	(80.1)
(Loss) / Profit before finance costs and income tax (EBIT)	(57.2)	141.1
Net finance costs	(30.8)	(33.6)
(Loss) / Profit before income tax	(88.0)	107.5
Income tax benefit / (expense)	26.0	(33.5)
(Loss) / Profit for the year	(62.0)	74.0

19. Controlled Entities (continued)

	Consolidated 2020 $m	Restated Consolidated 2019 $m
Current assets		
Cash and cash equivalents	**102.8**	81.3
Trade receivables and contract assets	**281.9**	303.5
Current tax asset	**0.1**	-
Inventories	**21.2**	25.5
Prepayments	**10.4**	10.7
Total current assets	**416.4**	421.0
Non-current assets		
Investments accounted for using the equity method	**0.1**	0.5
Investment in subsidiaries	**114.0**	114.0
Trade receivables and contract assets	**89.2**	78.8
Property, plant and equipment	**218.0**	244.8
Right of use assets	**94.5**	-
Goodwill	**774.0**	771.0
Intangible assets	**75.7**	108.1
Deferred tax assets	**193.3**	128.0
Other	**9.7**	15.4
Total non-current assets	**1,568.5**	1,460.6
Total assets	**1,984.9**	1,881.6
Current liabilities		
Trade payables and contract liabilities	**529.4**	438.8
Borrowings	**29.6**	2.6
Current tax payable	**-**	8.0
Provisions	**104.9**	111.3
Derivatives at fair value	**4.5**	2.7
Total current liabilities	**668.4**	563.4
Non-current liabilities		
Borrowings	**764.3**	643.5
Deferred tax liabilities	**72.9**	46.7
Provisions	**30.8**	80.2
Derivatives at fair value	**2.3**	1.6
Other	**8.2**	20.1
Total non-current liabilities	**878.5**	792.1
Total liabilities	**1,546.9**	1,355.5
Net assets	**438.0**	526.1
Equity		
Issued capital	**993.8**	993.8
Reserves	**25.3**	27.0
Accumulated losses (i)	**(581.1)**	(494.7)
Total equity	**438.0**	526.1

19. Controlled Entities (continued)

(i) Accumulated losses	Consolidated 2020 $m	Restated Consolidated 2019 $m
Balance at beginning of the year	**(494.7)**	(448.1)
Net (Loss) / Profit	**(62.0)**	74.0
Effect of AASB 15	**-**	(103.2)
Adjustment for Payroll Remediation Costs	**-**	(17.4)
Effect of AASB 16	**(24.4)**	-
Balance at end of the year	**(581.1)**	(494.7)

20. 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 Engineers and Contractors Pty Ltd
- Envar Holdings Pty Ltd
- Envar Installation Pty Ltd
- Envar Service Pty Ltd

The primary purpose of this acquisition is to continue to build a market leading integrated mechanical and electrical business. The accounting for this acquisition was finalised within 12 months of acquisition date.

	Provisional at 30 June 2019 $m	Adjustments $m	Finalised at 30 June 2020 $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	7.5	**17.5**
Deferred purchase consideration payable	14.9	(7.5)	**7.4**
Goodwill arising on acquisition	26.2	3.0	**29.2**

Envar contributed $47.6 million of revenue and $3.2 million to profit after tax for the full year ended 30 June 2020.

20. Business Combinations (continued)

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.

(a) Accounting Policy

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

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

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

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

21. Goodwill

	2020 $m	2019 $m
Balance at the beginning of the year	**771.0**	744.8
Acquired in a business combination (Note 20)	**3.0**	26.2
Balance at the end of the year	**774.0**	771.0

(a) Accounting Policy

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

21. Goodwill (continued)

(b) Allocation of Goodwill

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

	2020 $m	2019 $m
Facility Services	**705.8**	702.8
Laundries	**68.2**	68.2
Balance at the end of the year	**774.0**	771.0

(c) Impairment Testing of Goodwill

Impairment testing is performed annually at 30 June in accordance with the Group's accounting policies and processes, or earlier when there is an indicator of impairment. At each reporting date, the Group reviews the carrying amounts of its goodwill and assets to determine whether there is any indication of impairment. Where an indicator exists, a formal estimate of the recoverable amount is made. An impairment loss is recognised in profit and loss if the recoverable amount of an asset is estimated to be less than its carrying amount.

Impairment testing at 30 June 2020 was undertaken at the Facility Services and Laundries CGU level. The discussion below outlines the Group's methodology and approach at 30 June 2020 for impairment testing.

(i) Methodology and Testing of Recoverable Amount

Value in Use ("VIU")

The recoverable amount of both CGUs has been determined based on a VIU calculation.

Key Assumptions

The following key assumptions have been used to determine the recoverable amounts of the Group's CGUs under a VIU model:

i) Cash Flows

Cash flows have been based on a contract profitability forecast using the growth rates detailed in point iii) below between years 2 and 5 and a terminal value based on the long-term growth rate. The cash flows comprise earnings before interest, depreciation and amortisation from each CGU net of expected working capital movements (as a surrogate for cash flows) and sustainable levels of maintenance capital expenditure, taking into consideration current market conditions.

ii) Discount Rates

Discount rates applied in the testing of recoverable amount reflect the pre-tax real weighted average cost of capital for the respective CGUs (10.8% for the Facility Services CGU and 10.9% for the Laundries CGU) and is reflective of the current market assessment of the risks specific to each CGU taking into consideration the time value of money.

21. Goodwill (continued)

(c) Impairment Testing of Goodwill (continued)

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

iii) EBITDA Growth

EBITDA growth has been based on management's experience in the respective customer sectors, from observable industry trends and data, and growth prospects given current revenue pipelines. Compound annual growth rates applied range from 1.6% to 5.0% between years 2 and 5.

iv) Long Term Growth Rate

Management has applied a long-term growth rate of 2.5% beyond the 5 year forecast period and into perpetuity. This range is considered to be in line with external market expectations of long term growth in these industries.

(d) Sensitivity Analysis

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

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

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

A reasonably possible unfavourable change in each of these assumptions in isolation would result in the following approximate change on the estimated recoverable amounts for the Laundries CGU. This may have a negative impact on the recoverable amount, without any mitigating facts or changed circumstances, and could indicate a requirement for additional goodwill impairment.

Sensitivity	**Laundries $m**
1.0% increase in the pre-tax discount rate	**(33.2)**
1.0% decrease in the compound annual EBITDA growth rate	**(4.4)**
1.0% decrease in the long-term growth rate	**(24.1)**

22. Parent Entity Disclosures

As at 30 June 2020 the parent company of the Group was Spotless Group Holdings Limited.

	2020 $m	2019 $m
Result of the parent entity		
Profit / (Loss) after tax for the year	**(0.2)**	0.7
Total comprehensive profit / (loss) for the year	**(0.2)**	0.7
Financial position of the parent entity at year end		
Non-current assets	**1,421.2**	1,442.4
Total assets	**1,421.2**	1,442.4
Current liabilities	**385.7**	398.6
Non-current liabilities	**-**	8.1
Total liabilities	**385.7**	406.7
Net assets	**1,035.5**	1,035.7
Total equity of the parent entity at year end comprised:		
Issued capital	**993.8**	993.8
Reserves	**13.3**	13.3
Retained earnings	**28.4**	28.6
Total equity	**1,035.5**	1,035.7

During the year, the Company did not receive any dividends from its wholly-owned subsidiary (2019: Nil).

Parent entity contingencies

The parent entity has no bank guarantees or any contingent liabilities or capital commitments as at 30 June 2020 (2019: Nil).

Parent entity guarantees in respect of debts of its subsidiaries

Spotless Group Holdings Limited has issued the following guarantees in relation to the debts of its subsidiaries: Pursuant to ASIC Corporations Instrument 2016/785, Spotless Group Holdings Limited has entered into a deed of cross guarantee on 28 March 2014. The effect of the deed is that Spotless Group Holdings Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity. The controlled entities have also given a similar guarantee in the event that Spotless Group Holdings Limited is wound up.

23. Related Party Disclosures

It is the Company's policy that all related party transactions are on an arm's length basis.

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 19 to the financial statements.

(b) Key management personnel compensation and retirement benefits

The aggregate compensation of key management personnel of the Group is set out below:

	2020 $	2019 $
Short-term employee benefits	**1,779,668**	2,400,972
Long-term benefits	**33,878**	23,206
Post-employment benefits	**91,464**	95,367
Termination benefits	**-**	733,011
Share-based payment	**133,873**	58,893
	2,038,883	3,311,449

(c) Key management personnel equity interests

As at 30 June 2020 key management personnel held 800,000 (2019: 800,000) fully paid shares and nil (2019: nil) share options and rights in the Group.

(d) Other transactions with key management personnel

The Group transacts with certain related party entities of Directors in the ordinary course of business.

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

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

(e) Transactions within the wholly-owned group

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

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

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

(f) Transactions with other related parties

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

During the year, the Group paid expenses of $58.2 million (2019: $26.4 million) to the Downer Group and received $6.8 million (2019: $29.7 million) in revenue from the Downer Group. At 30 June 2020, the Group held payables of $32.4 million (2019: $18.2 million) to the Downer Group and receivables of $5.2 million (2019: $12.7 million) from the Downer Group.

23. Related Party Disclosures (continued)

(f) Transactions with other related parties (continued)

The sales to and purchases from the Downer Group are made on terms equivalent to those that prevail in arm's length transactions. No material amounts were charged or recharged by any other related parties (2019: Nil).

(g) Controlling entities

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

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

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

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

24. Share-based Payment

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

With regard to the balance of unvested Executive Options and Rights that did not vest on a pro-rata basis, the Board exercised discretion under the LTI Plan Rules to approve the vesting of those LTI Options and LTI Rights at the time the Downer offer became unconditional. This occurred on 19 June 2017. No additional LTI Options or LTI Rights were granted in the years ended 30 June 2019 or 30 June 2020.

(a) Executive Options and Rights	2020 Number	2020 WAEP (i)	2019 Number	2019 WAEP (i)
Balance at the beginning of the financial year	-	-	5,782,949	2.69
Expired during the year	-	-	(5,782,949)	-
Exercised during the year	-	-	-	-
Balance at the end of the financial year	-	-	-	-

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

(b) Accounting Policy

Share-based payments made to employees and others which grant rights over the parent entity's shares are accounted for as equity-settled share-based payment transactions.

Equity-settled share-based payments with employees (and others providing similar services) are measured at the fair value of the equity instrument at grant date. Fair value is measured by use of a binomial model and/or Monte Carlo simulation model.

The fair value determined at grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of the modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee.

24. Share-based Payment (continued)

(c) Fair value of performance options and rights issued

All performance options and rights issued to key management personnel are valued using the Monte Carlo methodology. The following table details the underlying inputs into their fair value, and describes the performance hurdles each are subject to:

	Number of performance options and rights	Fair value at issue $	Exercise price $	Expected volatility (iii)	Dividend yield	Risk Free rate	Performance criteria	Vesting date	Expiry date
Granted 28 September 2015	3,692,631	0.2510	2.07	26.01%	5.85%	1.91%	EPS	30 June 2018	30 June 2019
Granted 28 September 2015	3,692,631	0.2380	2.07	26.01%	5.85%	1.91%	RTSR	30 June 2018	30 June 2019
Modification to options granted 28 September 2015 (i)	(ii)	0.1090	2.07	50.12%	7.89%	1.51%	EPS	30 June 2019	30 June 2020
Modification to options granted 28 September 2015 (i)	(ii)	0.1030	2.07	50.12%	7.89%	1.51%	RTSR	30 June 2019	30 June 2020

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

(ii) Modification related to options granted on 28 September 2015 (3,692,631 EPS and 3,692,631 RTSR). No additional options were granted at modification date.

(iii) Expected volatility captures the characteristic of fluctuations in the share's price. Accordingly, the determination of the expected volatility takes into account the historical market volatility and the market implied volatility.

Other Information

This section provides details on other required disclosures relating to the Group to comply with accounting standards and other pronouncements.

25. Commitments and Contingent Liabilities	**2020**	**2019**
	$m	**$m**
Legal proceedings	**-**	-
Bank guarantees, insurance bonds and letters of credit (i)	**144.5**	153.7
Catering rights	**63.2**	89.2

Certain recent court decisions, not involving Spotless, regarding the correct application of various employee entitlements may have a financial impact on the Group. The Group does not consider the majority of the principles relating to these court decisions directly apply to the Group's employment arrangements. No provision has therefore been recognised in relation to these matters at 30 June 2020.

Other than the above, the Group does not have any material contingent liabilities in respect of legal proceedings as at 30 June 2020 (30 June 2019: nil). A number of legal claims exist where the outcome is uncertain. Where an unfavourable outcome is probable and can be reliably measured, 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.

(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.

26. Remuneration of Auditors	**2020**	**2019**
	$	**$**
Auditing the financial statements	**1,153,000**	1,180,000
Other services:		
Other assurance services	**56,000**	80,000
Taxation services	-	10,000
Other non-audit services	**83,000**	275,000
	1,292,000	1,545,000

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

27. Events After the Reporting Period

On 21 July 2020, Downer announced it has made an unconditional offer to acquire all of the issued share capital of Spotless not already owned for an upfront cash consideration of approximately $134.5 million, plus a maximum of 7.5 million Downer shares to be issued on exercise of the Downer Contingent Share Option.

Downer has entered into a call option deed with Coltrane Master Fund, L.P. under which it has a call option over 2.99% of Spotless shares, which on exercise will increase Downer's ownership above the 90% threshold required to proceed to compulsory acquisition.

Outside of the above, at the date of this report, there have been no other matters or circumstances that have arisen since the end of the financial year, that have 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 subsequent financial years.

KPMG

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

To the Directors of Spotless Group Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Spotless Group Holdings Limited for the financial year ended 30 June 2020 there have been:

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

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

KPMG

KPMG

Tony Romeo
Partner

Directors' Declaration

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

(a) the financial statements and notes thereto are in accordance with the *Corporations Act 2001* ("the Act") including:

i. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001;*

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and

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

Signed in accordance with a resolution of the Directors.

On behalf of the Board of Directors

J Humphrey
Chairman
Melbourne, 12 August 2020

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

Independent Auditor's Report

To the shareholders of Spotless Group Holdings Limited

Opinion

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

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

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- the Consolidated Statement of financial position as at 30 June 2020;
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Cash Flow Statement for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

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

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

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

Tony Romeo
Partner

Melbourne
12 August 2020