Servcorp

Workspace that works for you

Annual Report 2017

The Product

COWORKING.
OFFICES.
VIRTUAL WORKSPACE.
COMMUNITY.

For those who want to win!

Servcorp's Aim

To be the world's finest Workspace Solutions provider; providing IT and commercial services second to none; giving our clients a commercial advantage; paying our people reasonable wages; and giving our shareholders an acceptable return on the funds they invest.

ESTABLISHED 1978 | GLOBAL & UNIFIED

SERVCORP LIMITED
ABN 97 089 222 506

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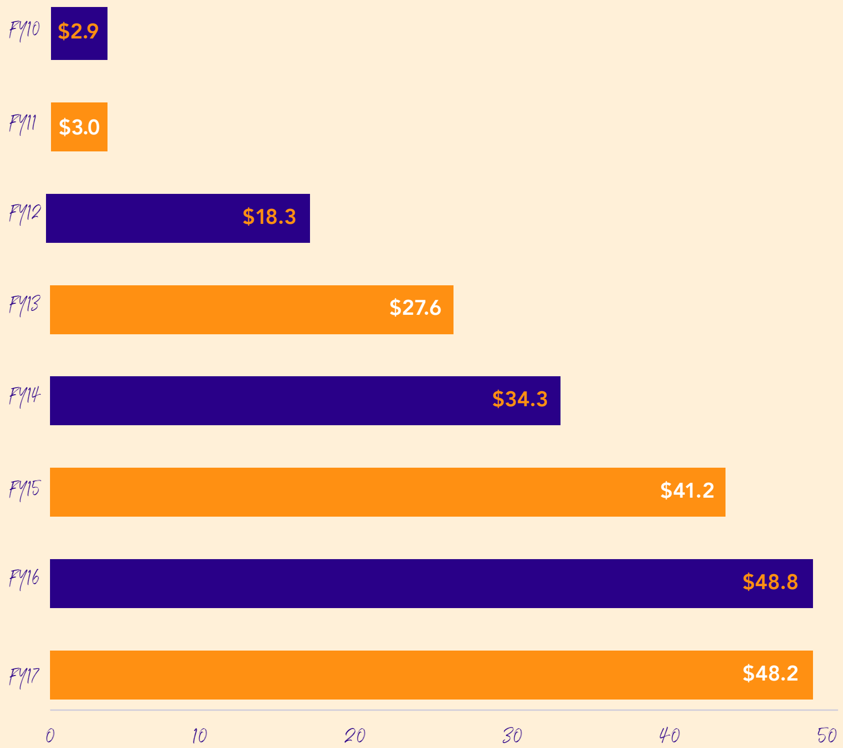
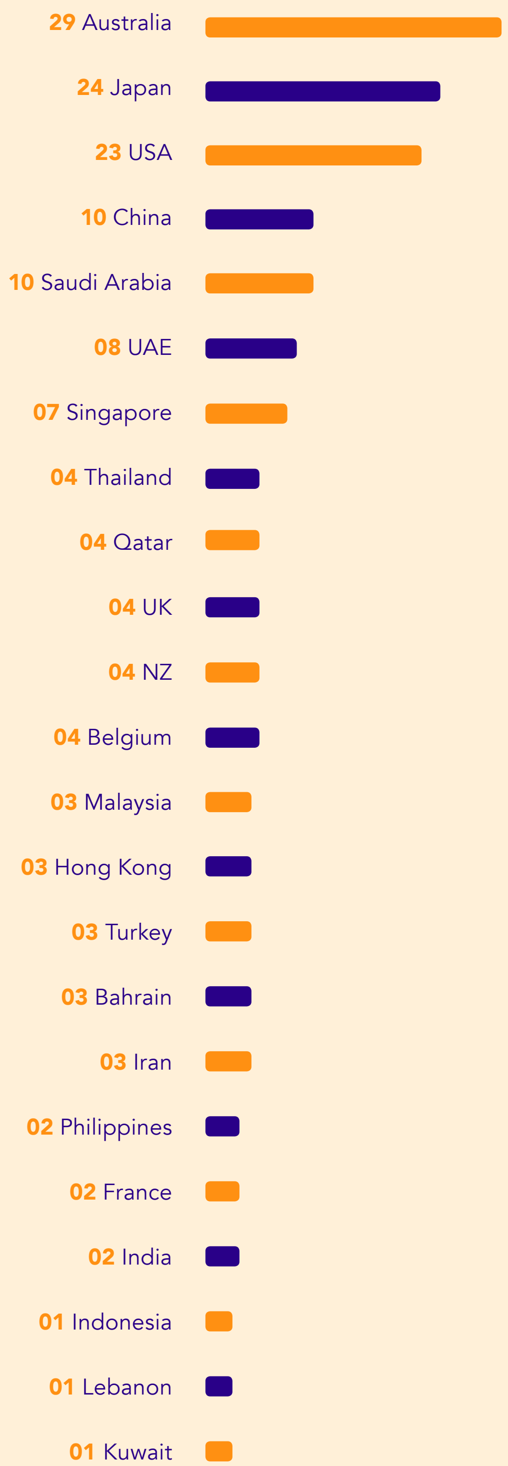
2017 in review

Net profit before tax (millions)



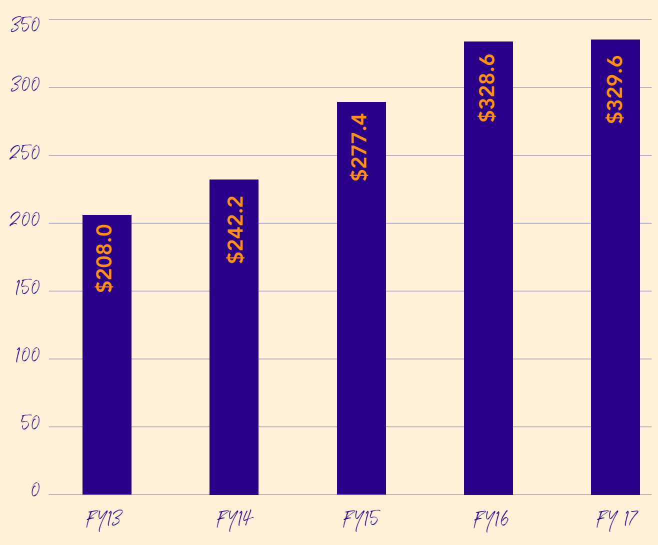
Servcorp geographic spread (floors)



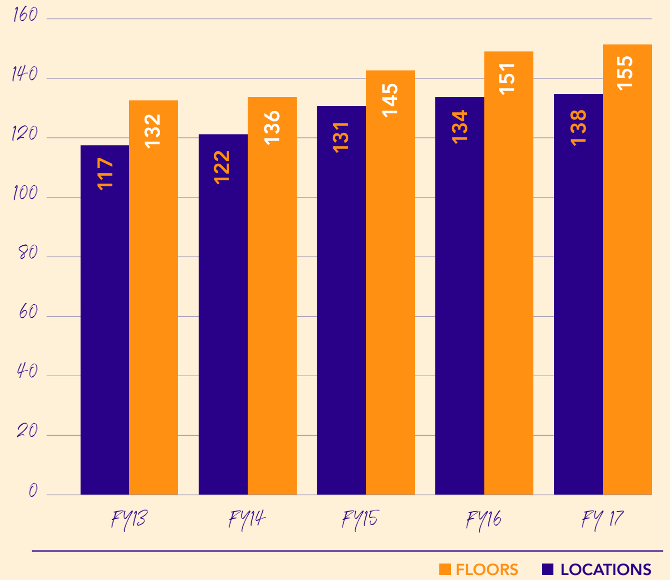
12 months ended 30 June

	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000
Revenue & other income	207,995	242,247	277,378	328,601	329,565
Net profit before tax	27,630	34,257	41,211	48,840	48,193
Net profit after tax	21,271	26,336	33,141	39,722	40,711
Net operating cash flows	27,092	40,214	59,928	60,575	54,354
Cash & investments	99,758	108,788	114,451	114,586	118,754
Net assets	207,900	217,101	241,898	261,020	267,175
Earnings per share	$0.216	$0.268	$0.337	$0.404	$0.414
Dividends per share	$0.150	$0.200	$0.220	$0.220	$0.260

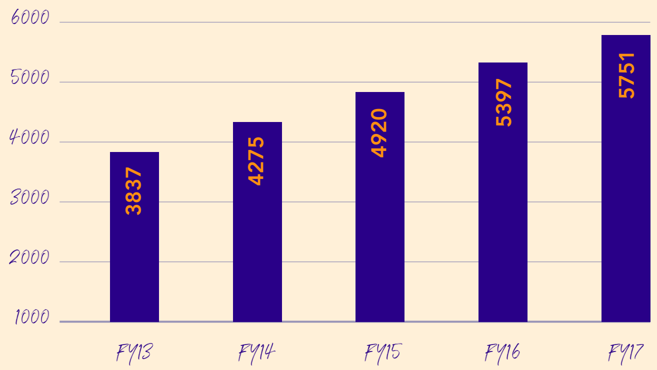
Revenue (millions)



Floors and locations (as at 30 June)



Servcorp offices (as at 30 June)



Where we play

United States Of America

ATLANTA
– Level 20, Terminus 200
– Level 36, 1075 Peachtree, Midtown

BOSTON
– Level 14, One International Place

CHICAGO
– Level 42, 155 North Wacker Drive
– Level 49, 300 North LaSalle
– Level 17, River Point, West Loop

DALLAS
– Level 6, JP Morgan International Plaza III
– Level 10, Rosewood Court

HOUSTON
– Level 39, Bank of America Center
– Level 41, Williams Tower

IRVINE
– Level 8, Irvine Towers

LOS ANGELES
– Level 40, Figueroa at Wilshire

MIAMI
– Level 27, Southeast Financial Center

NEW YORK CITY
– Level 23, 1330 Avenue of the Americas
– Level 26, The Seagram Building
– Level 40, 17 State Street
– Level 85, One World Trade Center

PHILADELPHIA
– Level 37, BNY Mellon Center

SAN FRANCISCO
– Level 27, 101 California Street
– Level 49, 555 California Street

TYSONS CORNER
– Level 15, Corporate Office Center Tysons II

WASHINGTON D.C.
– Level 10, 1717 Pennsylvania Avenue
– Level 10, 1155 F Street

United Kingdom

LONDON
– Level 17, Dashwood House
– Level 18, 40 Bank Street, Canary Wharf
– Level 30, The Leadenhall Building
– Level 1, Devonshire House, One Mayfair Place

Belgium

BRUSSELS
– Levels 20 & 21, Bastion Tower
– Levels 5 & 6, Schuman 3, European Quarter

France

PARIS
– Ground Floor, 23 Edouard VII Square, Edouard VII - Opéra Madeleine
– Level 2, 21 Boulevard Haussmann

Turkey

ISTANBUL
– Levels 5 & 6, Louis Vuitton Orjin Building
– Level 8, Tekfen Tower

Kingdom of Bahrain

MANAMA
– Levels 22 & 41, West Tower Bahrain Financial Harbour
– Level 13, Diplomatic Commercial Office Tower(DCO)

Iran

TEHRAN
– Levels 7, 8 and 9, Park Building

Kuwait

KUWAIT CITY
– Level 18, Sahab Tower

Lebanon

BEIRUT
– Level 2, Louis Vuitton Building

Qatar

DOHA
– Levels 14 & 15,Commercialbank Plaza
– Level 22, Tornado Tower
– Level 21, Doha Tower

Kingdom of Saudi Arabia

AL KHOBAR
– Levels 20 & 22, Al Hugayet Tower
– Level 21, Al Khobar Gate Tower

JEDDAH
– Level 9, Jameel Square
– Level 26, King's Road Tower
– Level 7, Al Murjanah Tower

RIYADH
– Level 6, Gate D, Al Akaria Plaza
– Level 18, Al Faisaliah Center
– Level 1, Building No. 7, The Business Gate
– Level 29, Olaya Towers, Tower B

United Arab Emirates

DUBAI
– Level 23, Boulevard Plaza 2
– Levels 41 & 42, Emirates Towers
– Level 21, Al Habtoor Business Tower
– Level 54, Almas Tower

ABU DHABI
– Level 4, Al Mamoura Building B
– Level 36, Etihad Towers
– Level 17, World Trade Center

China

BEIJING
– Level 24, Tower 3, China Central Place
– Level 19, Tower E2, Oriental Plaza
– Level 26, Fortune Financial Center

CHENGDU
– Level 18, Shangri-La Office Tower
– Level 28, Chengdu One Aerospace Center

GUANGZHOU
– Level 54, Guangzhou IFC

HANGZHOU
– Level 3, Jiahua International Business Center

SHANGHAI
– Level 23, Citigroup Tower
– Level 29, Tower One, Jing An Kerry Center
– Level 5, Somekh Building

Hong Kong

CENTRAL
– Level 19, Two International Finance Centre
– Level 9, The Hong Kong Club Building

KOWLOON
– Level 12, One Peking Road

Japan

FUKUOKA
– Level 15, Fukuoka Tenjin Fukoku Seimei Building
– Level 2, NOF Hakata Ekimae Building

NAGOYA
– Level 40, Nagoya Lucent Tower
– Level 4, Nagoya Nikko Shoken Building

OSAKA
– Level 9, Edobori Center Building
– Levels 18 & 19, Hilton Plaza West Office Tower
– Level 4, Shinsaibashi Plaza Building

TOKYO
– Level 11, Aoyama Palacio Tower
– Level 14, Hibiya Central Building
– Level 20, Marunouchi Trust Tower – Main
– Level 1, Yusen Building
– Level 7, Wakamatsu Building
– Level 8, Nittochi Nishi-Shinjuku Building
– Level 9, Ariake Frontier Building, Tower B
– Level 28, Shinagawa Intercity Tower A
– Level 32, Shinjuku Nomura Building
– Level 21, Shiodome Shibarikyu Building
– Level 27, Shiroyama Trust Tower
– Level 45, Sunshine 60
– Level 27, Tokyo Sankei Building
– Level 18, Yebisu Garden Place Tower
– Level 8, Tri-Seven Roppongi

YOKOHAMA
– Level 10, TOC Minato Mirai

India

HYDERABAD
– Level 7, Maximus Towers

MUMBAI
– Level 8, Vibgyor Towers

Indonesia

JAKARTA
– Level 33, International Financial Centre Tower 2

Malaysia

KUALA LUMPUR
– Level 36, Menara Citibank
– Level 23, NU Tower 2
– Level 33, ILHAM Tower

Philippines

MANILA
– Level 17, 6750 Ayala Avenue
– Level 22, Tower One Ayala Triangle

Singapore

SINGAPORE
– Penthouse Level & Level 42, Suntec Tower Three
– Level 30, Six Battery Road
– Level 39, Marina Bay Financial Centre Tower 2
– Level 26, PSA Building
– Level 8, The Metropolis Tower 2
– Level 24, CapitaGreen

Thailand

BANGKOK
– Levels 8 & 9, 1 Silom Road
– Level 29, The Offices at Centralworld
– Level 18, Park Ventures Ecoplex

Australia

ADELAIDE
– Levels 24 & 30, Westpac House

BRISBANE
– Level 36, Riparian Plaza
– Level 19, 10 Eagle Street
– Level 27, Santos Place

CANBERRA
– Level 1, The Realm
– Level 9, Nishi Building

HOBART
– Level 6, Reserve Bank Building

MELBOURNE
– Levels 18 & 27, 101 Collins Street
– Level 40, 140 William Street
– Level 2, 710 Collins Street, Docklands
– Level 2, Riverside Quay, Southbank

PERTH
– Levels 15 & 28, AMP Tower
– Level 11, Brookfield Place

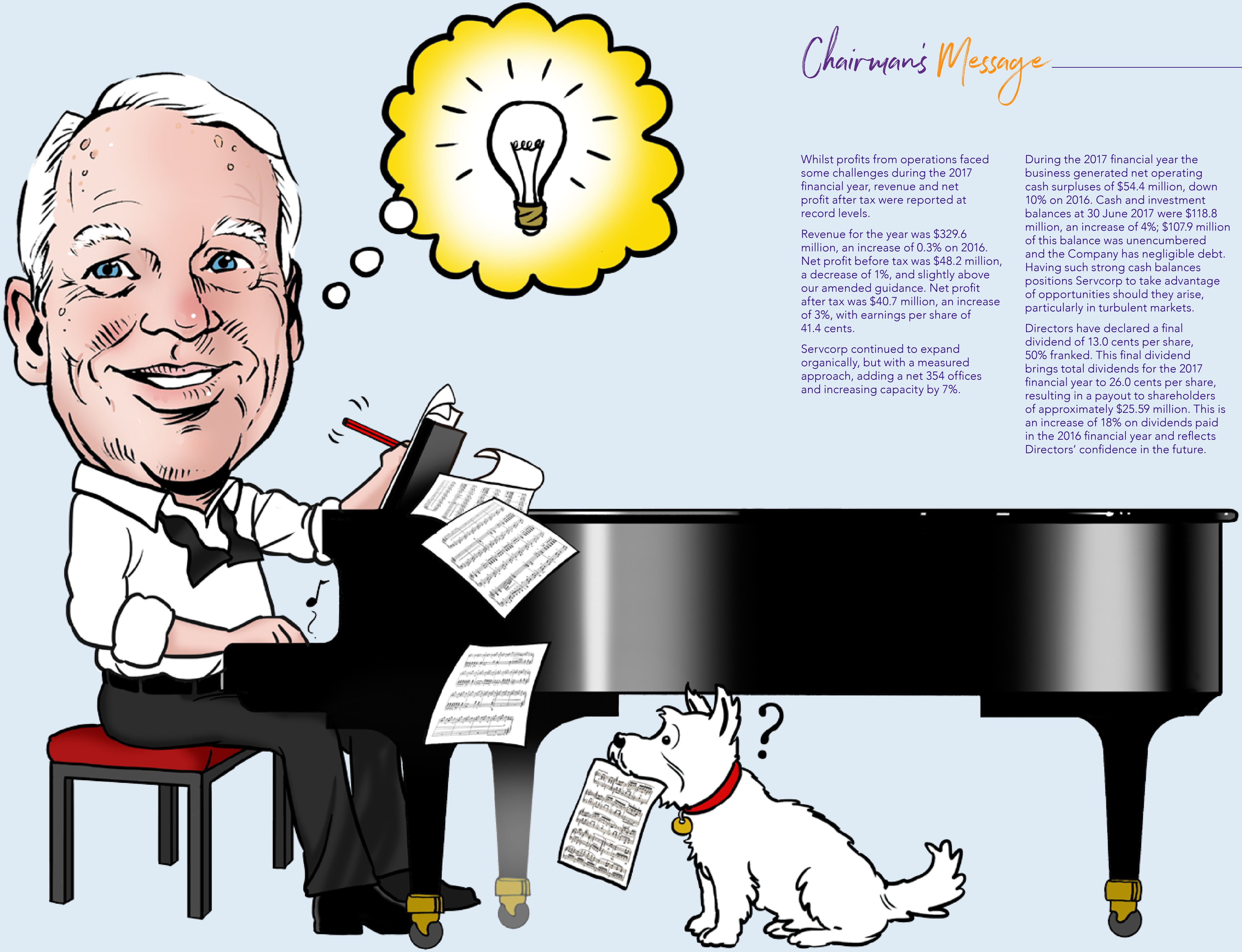
SYDNEY
– Level 29, Chifley Tower
– Level 36, Gateway
– Levels 56 & 57, MLC Centre
– Level 26, 44 Market Street
– Level 32, 101 Miller Street, North Sydney
– Level 22, Tower Two Westfield, Bondi Junction
– Level 1, The Octagon, Parramatta
– Level 15, Deloitte Building, Parramatta
– Level 9, Avaya House, Macquarie Park
– Level 5, Nexus Norwest, Baulkham Hills
– Level 35, Tower One, Barangaroo

New Zealand

AUCKLAND
– Levels 26 & 27, PWC Tower
– Level 31, Vero Centre

WELLINGTON
– Level 16, Dimension Data House

TOKYO TRI-SEVEN RECEPTION



Chairman's Message

Whilst profits from operations faced some challenges during the 2017 financial year, revenue and net profit after tax were reported at record levels.

Revenue for the year was $329.6 million, an increase of 0.3% on 2016. Net profit before tax was $48.2 million, a decrease of 1%, and slightly above our amended guidance. Net profit after tax was $40.7 million, an increase of 3%, with earnings per share of 41.4 cents.

Servcorp continued to expand organically, but with a measured approach, adding a net 354 offices and increasing capacity by 7%.

During the 2017 financial year the business generated net operating cash surpluses of $54.4 million, down 10% on 2016. Cash and investment balances at 30 June 2017 were $118.8 million, an increase of 4%; $107.9 million of this balance was unencumbered and the Company has negligible debt. Having such strong cash balances positions Servcorp to take advantage of opportunities should they arise, particularly in turbulent markets.

Directors have declared a final dividend of 13.0 cents per share, 50% franked. This final dividend brings total dividends for the 2017 financial year to 26.0 cents per share, resulting in a payout to shareholders of approximately $25.59 million. This is an increase of 18% on dividends paid in the 2016 financial year and reflects Directors' confidence in the future.

For the 2018 financial year we project net profit before tax to be between $45 million and $55 million. Directors anticipate the level of dividends for the 2018 financial year will be 26.0 cents per share (13.0 cents in each half). Future franking levels are uncertain. These forecasts are subject to currencies remaining constant, global financial markets remaining stable and no unforeseen circumstances.

On behalf of the Board I want to acknowledge the outstanding efforts of our CEO, Alf Moufarrige; our COO, Marcus Moufarrige; our leadership group; and all the Servcorp team members, for their dedication and commitment during the past year, which has witnessed disruption in the market. Our industry is in unprecedented transition; we are seeing many new participants and as a result the shared workspace market is growing rapidly. Servcorp has made a significant investment in an unparalleled information technology platform; we have a premium location offering and proven experience in this sector; we have a developed Servcorp Community allowing collaboration between our growing customer base.

These factors make Servcorp a strong, diversified global business that differentiates us from other shared workspace providers. We are in a strong financial position to maximise leverage in this expanding market and maintain our position as the world's premium provider of serviced and virtual workspace solutions.

We look to the future with optimism.

We thank you, our shareholders, for your continuing support.

Bruce Corlett AM

CEO's Report

On the opposite page, is an extract from a recent JLL Research Report alluding to the flexible workspace revolution.

We are active players in this business environment that is growing at 25% compounding per annum.

I expect Servcorp to compete and grow as the one IT literate, 5 star operator in the flexible workspace field.

We are uniquely positioned as an IT corporation with over 35,000 clients across the globe to take advantage of this expanding flexible workspace demand.

Our design team have completed a template that reflects our new Coworking, Virtual Workspace, Community and Offices. Demand shows our template fills a real need in the community.

August 2017 was a record month for serviced office sales which reflect a more casual atmosphere across all Servcorp locations (may it continue).

The product mix including coworking will soon be opened in 31 locations, in 21 cities and 14 countries.

All new players in the industry rely on the arbitrage on the rent they pay and the rent they charge their clients, whereas over the last 30 years, Servcorp has developed a platform and IT solutions that give our clients a unique commercial edge and, for Servcorp, profitability without the arbitrage.

I see a really bright future as Servcorp further leverages its advantage in this ever growing shared workspace business.

Do not underestimate us.

Real happiness in business is:

- Simple IT solutions that work
- A team to delegate to
- A community to work with

No one else fulfils the criteria.

A G Moufarrige AO
CEO


Flexible Space | United States | 2017

<2>

An introduction to:

Flexible space

- JLL forecasts a dramatic shift in the office market, as tenant demand for more flexible space options forces building owners to adapt to occupier needs. Although flexible space currently accounts for less than 5 percent of current office inventory, JLL projects this figure could rise to 30 percent by 2030 due to insatiable levels of tenant demand for flexible-term spaces.
- As tenants across industries grapple with managing an increasingly fluid workforce – consisting of telecommuters, freelancers and contract employees – accommodating digital talent is taking on heightened importance. Companies both large and small have begun to realize the potential of leveraging flexible space arrangements to better manage their liquid workforce.
- The flexible space sector is experiencing explosive growth, expanding nearly three-fold as a share of U.S. office leasing activity in YTD 2017 (3.1%) relative to its share from two years prior (1.3%).
- WeWork has emerged as the industry's fastest-growing operator, accounting for 76 percent of flexible space leasing activity in the U.S. since 2016 (among transactions > 20,000 s.f.).
- Although IWG, plc. (which includes Regus, Spaces and four other subsidiaries), WeWork and Servcorp control 42 percent of the global flexible space market, there are an estimated 7,600 flexible space operators worldwide, which highlights the fragmented nature of the industry.

JLL forecasts a flexible space revolution:

Past: 80% occupancy; 20% vacant; 40% Utilization; 300+ s.f. per person

Present: <5%* Flexible; 85% occupancy; 15% vacant; 50% Utilization; 200+ s.f. per person

Future: 30% Flexible; 90% occupancy; 10% vacant; 80% Utilization; <150 s.f. per person

**Approximately 2 percent of current U.S. office inventory is controlled by independent, third-party flexible office providers (spanning all operator types, from traditional executive office suites to flexible space to incubators). Given industry shifts, flexible workspace and shared amenity spaces are projected to encompass up to 30 percent of the future office market.*

EXTRACT FROM JLL RESEARCH REPORT:
"BRACING FOR THE FLEXIBLE SPACE REVOLUTION"
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The evolution of workspace

Servcorp, since its inception in 1978, has always led the development of workspace solutions, and has grown organically since its IPO in 1999. At the time of the IPO, Servcorp operated in 8 countries with 35 floors. By June 2009, Servcorp operated in 14 countries, with 73 floors; in 10 years Servcorp had doubled its size.

In 2009 the global market conditions created an opportunity to secure leases on what was expected to be very favourable terms. This represented an attractive opportunity for aggressive expansion. During October and November 2009, Servcorp successfully undertook an equity capital raising of $80 million to fund a global expansion program. During the 2010 and 2011 years Servcorp opened a further 53 floors and expanded into 26 new cities and 7 new countries.

Servcorp continues to expand organically; a net 39 floors have been added since 2011, enhancing our footprint and establishing critical mass.

At 30 June 2017, Servcorp operated 155 floors in 55 cities across 23 countries.

In the 2017 financial year, 7 new floors were opened and 2 floors were expanded; with a net 354 offices being added, increasing total office capacity by 7%. 2017 also saw the growth of our Professional Coworking concept in key locations around the globe.

New floors were opened in Tokyo, Paris, Brussels, Jakarta, Sydney and Chicago, and existing floors were expanded in New York.

- In Tokyo, we opened in the Tri-Seven Building, a newly-built office and retail development designed to complement and enhance the surrounding environment. Tri-Seven is conveniently located in the heart of Roppongi, an area famous for its wealth of foreign organizations and businesses, right opposite the impressive Tokyo Midtown complex. The old shrine that was conserved in the outside Plaza reveres "Fukurokuju", one of Japan's 7 Lucky Gods, giving the blessings of good luck, prosperity and long life. It is therefore considered a great place to work and providing good luck for business.
- In Jakarta, standing tall at 215 metres, IFC Tower 2 is a 38 storey, Grade A, column-free office space. IFC is the first project in Indonesia to be conferred the highest Green Mark Platinum Award by the Building and Construction Authority of Singapore. Its iconic structure boasts enthralling bird's eye views across the Jakarta city skyline and places you in the best spot in the Central Business District.
- In Sydney, Barangaroo International Tower 1 is located on our world famous Sydney Harbour. The Barangaroo precinct is a premier commercial hub for the Asia Pacific region, offering scale and quality on par with the world's best office precincts. The tower boasts spectacular views of Sydney Harbour all the way through to the city CBD skyline.
- In Chicago, we opened in River Point, a prime Grade A, 52 storey skyscraper designed by Pickard Chilton. This iconic tower is situated at the head of Chicago River and at the intersection of Chicago's three prime neighbourhoods – the Loop, West Loop and River North. Walk out the front door and stroll to the business conveniences of the Loop, the residential conveniences of River North, or the social conveniences of the West Loop.

SYDNEY – BARANGAROO

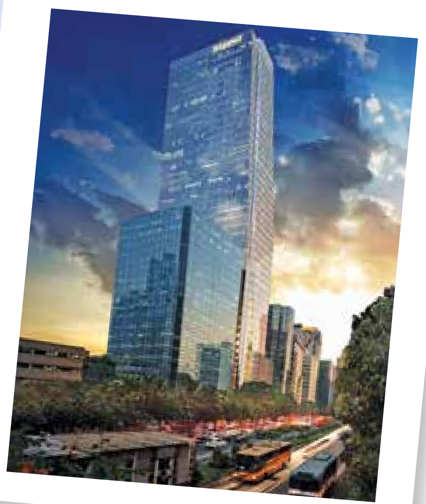
TOKYO – TRI-SEVEN

BRUSSELS – SCHUMAN 3

BARANGAROO – COWORKING

CHICAGO – RIVER POINT

JAKARTA – IFC



Servcorp's Community

Servcorp's Community – a unique directory

Connect

Share

Thrive

Servcorp believes that a great first impression, a fantastic team that supports your business, and a top-tier infrastructure are what help to make our clients' businesses successful.

We also listen to what our clients want and as a result, we have developed and built a new platform called Servcorp Community, adding collaboration between our growing customer base to be part of their success story.

We have successfully deployed this new product across 10 countries, in multiple languages including English, Japanese, Chinese and Arabic. Our global rollout will be completed by the end of 2017.

We already have 15,000 Servcorp clients interacting as part of the Community. It is fully integrated with the Servcorp platform and even enables every Servcorp client to dial any other Servcorp client; in most cases by video phone. This means that if you are a business based in Sydney doing a deal in LA, you can pick up the phone and speak to a lawyer (who is also a Servcorp client) and effectively speak to them face to face.

As well as connecting all of Servcorp's clients, the Community has a fully functioning event management system; forums and discussion groups for like-minded people; and some exclusive benefits, which will continue to grow.

Ultimately, the Servcorp Community will be a single touch point for all Servcorp services creating an amazing customer experience.

BUY FROM.
SELL TO.
INTERACT.

HOW IT WORKS

The Servcorp Community is one of the largest private business communities in the world. It allows you to connect, collaborate and come together with over 35,000 fellow imagineers globally.

Among many other features, you will also find high-level content through curated articles, deep knowledge forums, exclusive benefits, global events and much more.

Information & Communication Technology

Servcorp continues to invest in our world leading technology service business. The ongoing focus of the investment is to provide the best customer experience to support the growing demand for flexible workspaces and our growing needs of our clients.

This investment has seen the deployment of our internally developed, and highly innovative, OneAp application. OneAp utilises technologies such as Bluetooth, Wi-Fi & Global Positioning System (GPS) to automate and further customise our clients' experience in Servcorp to their own individual liking.

Further to this, our unified communications platform is continually evolving, with the ongoing development and deployment of Onefone, to further empower our clients need for mobility.

The Servcorp development team continue to deploy our new flexible workspace platform, with Australia completed and further regional deployments earmarked throughout the coming year.

The new flexible workspace platform greatly reduces administrative tasks for Servcorp managers and enables clients to easily access more services in a self-service way. It also provides Servcorp's clients with unparalleled transparency in billing.

We firmly believe that this new platform will take Servcorp into its next level of growth.

1 NEVER MISS THAT IMPORTANT CALL

- FIND ME FOLLOW ME
- CALL DIVERSION
- LIVE RECEPTIONIST

2 RUN YOUR BUSINESS MORE EFFICIENTLY

- IT SUPPORT
- IT CONSULTING
- CALL SCREENING
- ONEAP – WI-FI
- MEETINGS APP

3 EXPAND YOUR BUSINESS WITH EASE

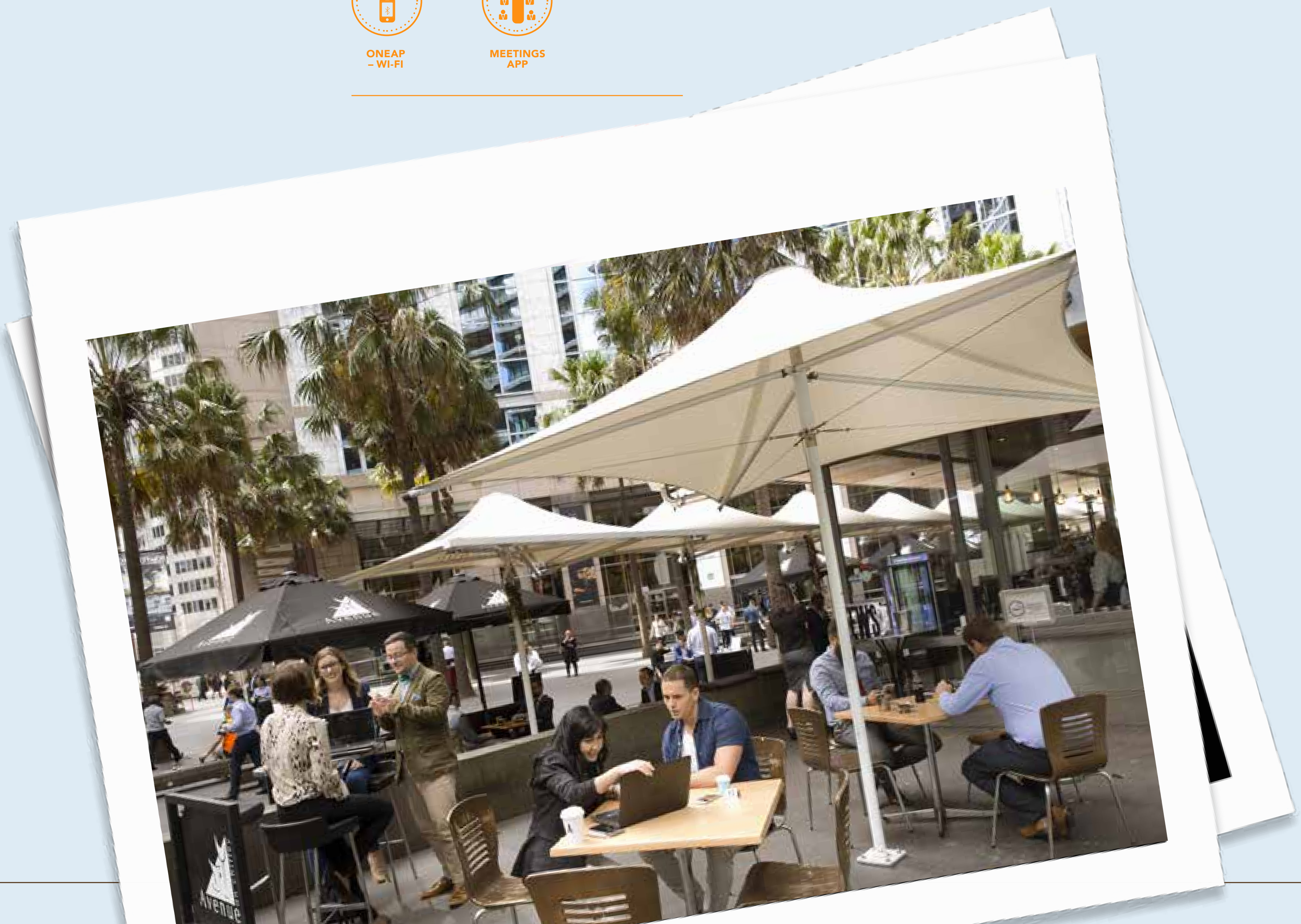
- LOCAL NUMBER
- PROFESSIONAL PHONE GREETINGS

4 TAKE YOUR OFFICE WITH YOU ANYWHERE YOU GO

- ONEFONE – VOIP
- GLOBAL DIAL
- ONEAP

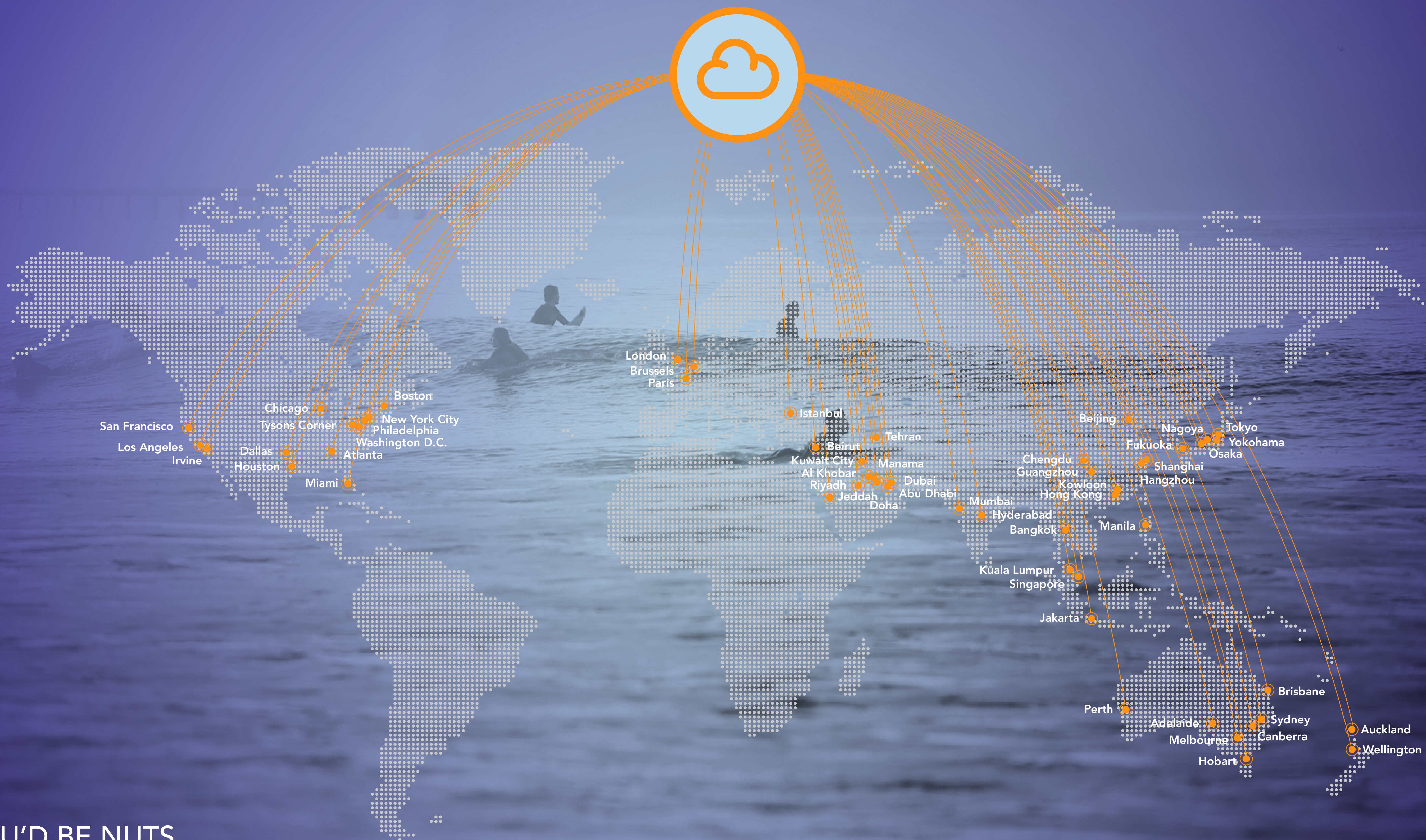
5 HAVE ACCESS TO THE MOST ADVANCED GLOBAL COMMUNICATION SYSTEM

- AUTOMATED ATTENDANT
- VOICEMAIL & FAX TO EMAIL
- VIDEO CONFERENCING
- CONFERENCE CALLING
- WI-FI
- IP VIDEO PHONES
- VOICEMAIL NOTIFICATIONS
- VOICEMAIL TO SMS
- SECURITY
- GLOBAL REDUNDANCY & DISASTER RECOVERY
- INTERNET EXCHANGE PEERING



To prosper in this digital age, you need IT solutions that work.

Global Communications



YOU'D BE NUTS
NOT TO BE A PART OF THIS

Our Environmental Commitment

MORE THAN
1,000
TREES
PLANTED IN 2017

MORE THAN
100,000 M²
OCCUPIED
BY SERVCORP FOREST

9,100
TON CO^2
OFFSET

Servcorp acknowledges the seriousness of climate change and the impact high concentrations of greenhouse gases in the atmosphere are having on our planet. There is growing need for businesses to become sustainable to ensure the protection of the environment from further damage. We have three distinct areas of focus; Reduce, Offset and Educate.

As a global company, we have a responsibility for taking a leadership role amongst both team members and clients worldwide to educate them on our values and attitude towards the environment. We will endeavour to make everyday changes, such as reducing paper use, recycling waste materials and using energy efficient processes, to help make a difference.

As Servcorp continues to grow and open new locations, we choose green buildings as another step in the right direction, and to further reduce our impact on the environment.

Servcorp also takes a proactive approach to offsetting greenhouse emissions. Since 2007, Servcorp has supported The Green Offices Project as our global platform for these initiatives.

As part of The Green Offices Project, Servcorp plants a tree for every Virtual Workspace sold online through the Servcorp website. Virtual Workspace, which is inherently environmentally friendly, continues to be a driving force behind the Green Offices Project.

The Project aims to reduce our carbon emissions, offset our existing footprint and educate our teams and clients about improving their day-to-day impact on the environment.

Servcorp has already planted nearly 34,000 trees and the 'Servcorp forest' now covers more than 100,000 square metres of regional land and is greater than the combined floor space occupied by our network of offices, globally.

The Servcorp forest will already remove more than 9,100 tonnes of carbon dioxide from the atmosphere during its lifespan. This is offsetting our Sydney Head Office greenhouse gas emissions from waste for the equivalent of five years!

Community Service

Servcorp supports continuing research into the prevention and cure of cancer and assisting young, seriously or terminally ill members of the community.

Servcorp holds charity functions and balls, runs raffles and undertakes donation drives all year round in all our locations. Every dollar that is raised by our teams on the ground is matched dollar for dollar by Servcorp. Over the last two years, Servcorp has raised and donated in excess of $800,000 to help with many organisations around the world.

In Australia, Youngcare continues to be the main focus of our fundraising, and executive Director, Taine Moufarrige, continues to be heavily involved with this organisation.

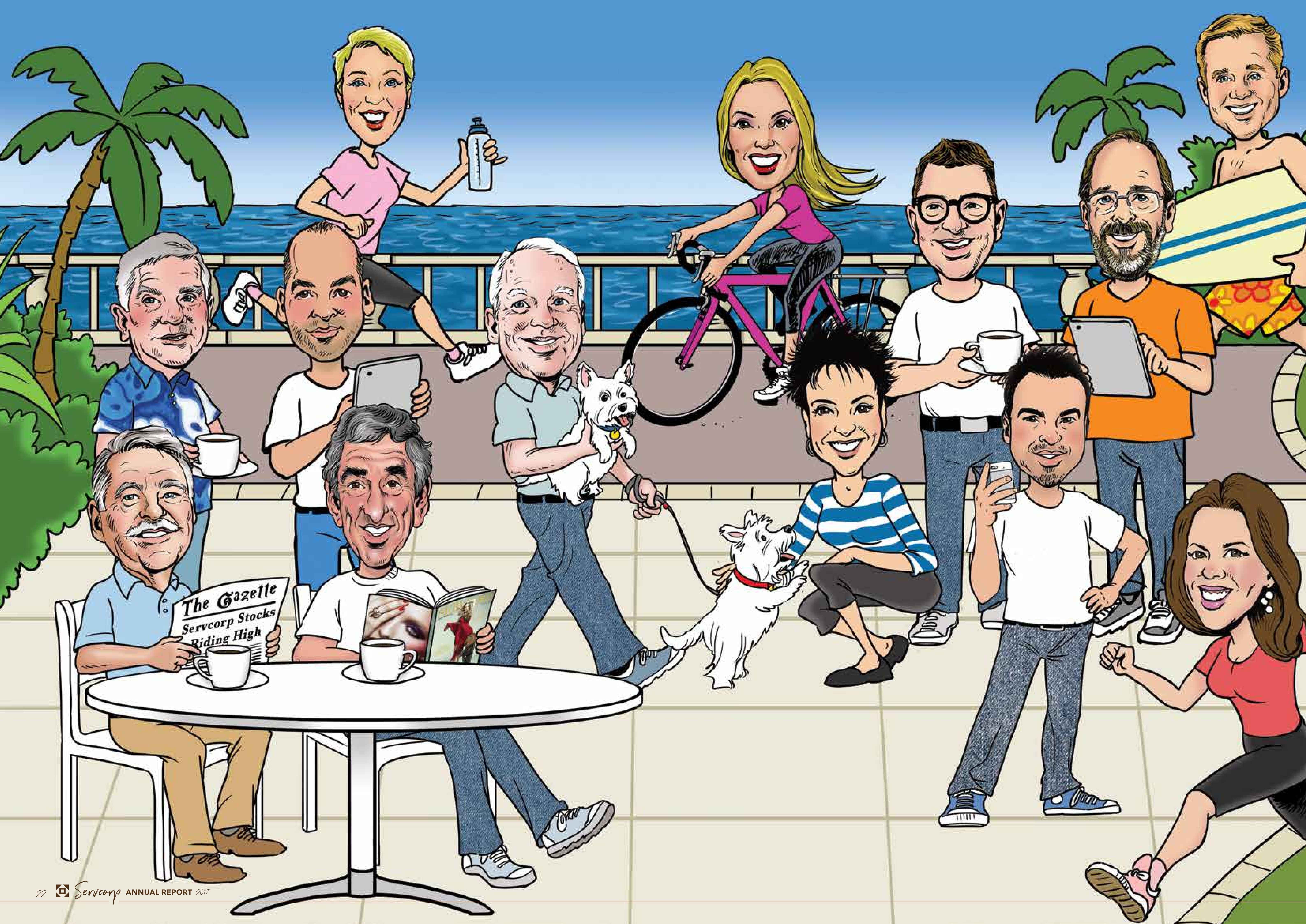
The other organisations we strongly supported globally this year included:

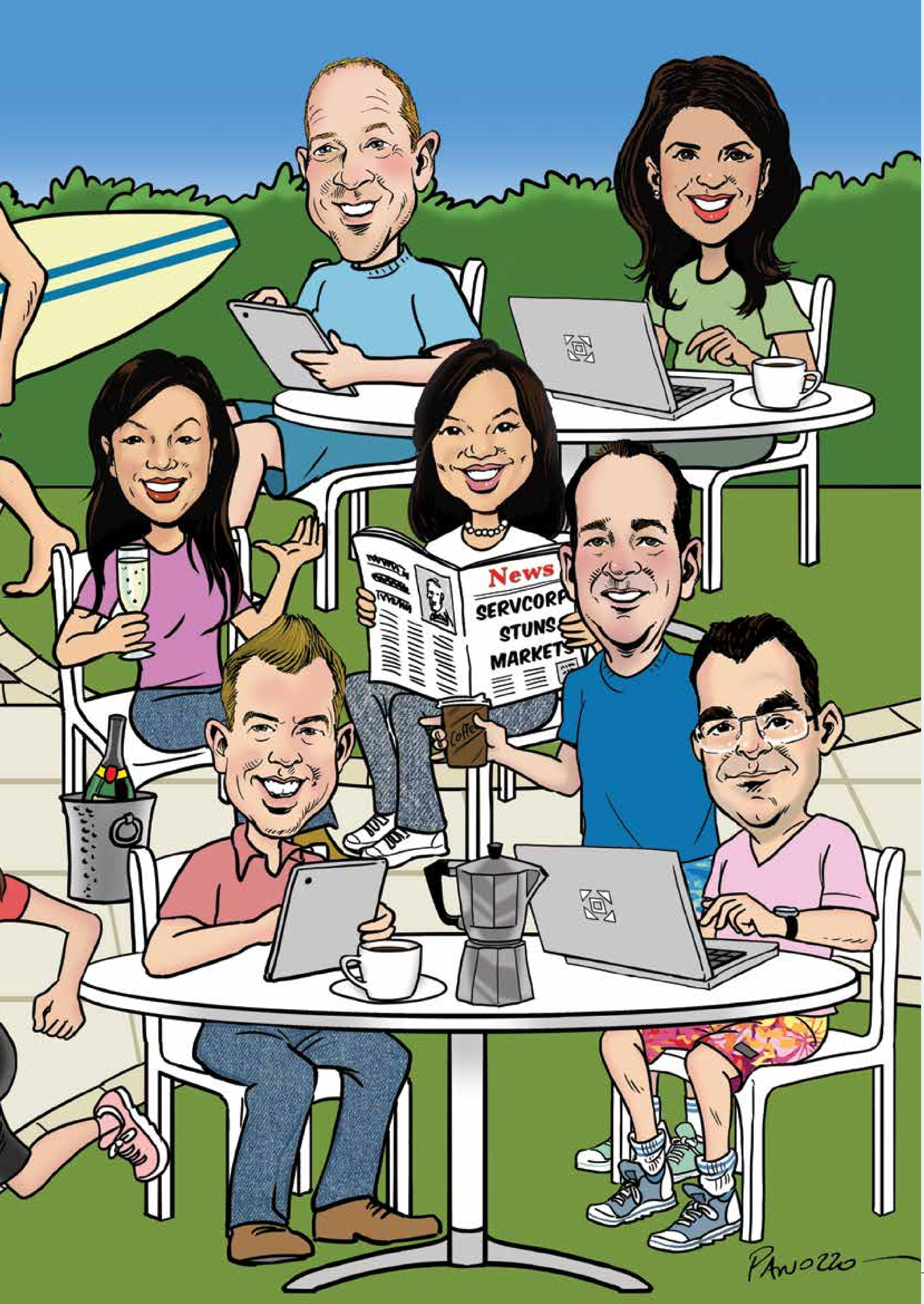
- Cancer Council
- Cure Brain Cancer Foundation
- Exodus Foundation
- Friends of The Mater Foundation
- Lifeline Australia
- Lifestart – Kayak for Kids
- Mater Lives Committee (Mater Hospital)
- Murdoch Children's Research Institute
- Rotary Club of Sydney
- The Salvation Army
- St Vincent's Private Hospital
- Sydney Children's Hospital Foundation
- The Smith Family
- Vision Beyond Australia
- Breast Cancer Awareness Program – UAE
- Children's Joy Foundation – The Philippines
- Home for Mentally Handicapped Girls Ban Rachawadee Ting – Thailand
- Look Good Feel Better – United Kingdom
- Run for the Cure – Japan

Servcorp also contributed to many other local charitable organisations around the world, and sponsors and supports the Australian Chamber Orchestra and Sydney Dance Company. Servcorp is a racially diverse company, supporting Christian, Buddhist, Muslim and Jewish causes.

We are proud of the fact that as a global Company we work with our local communities to bring about real change for good. We'd like to thank our clients and those who contributed to the success of our fundraising for the year.

Cancer Council | ST VINCENT'S HEALTH AUSTRALIA | ACO CHAMBER ORCHESTRA | youngcare


The Gazette
Servcorp Stocks
Riding High



Our Directors and Executives

THE BOARD AND EXECUTIVES

Bruce Corlett AM – **Chairman**
Rick Holliday-Smith – **Non-Executive Director**
Mark Vaile AO – **Non-Executive Director**
Alf Moufarrige AO – **Executive Director, CEO**
Taine Moufarrige – **Executive Director**

Marcus Moufarrige (BCom) – **Chief Operating Officer**
Anton Clowes (BCom (Hons), CA – **Chief Financial Officer**
Greg Pearce (CA, AGIA, ACIS) – **Company Secretary**

OPERATIONAL EXECUTIVES

Olga Vlietstra (BA) – **General Manager Japan**
Liane Gorman – **General Manager Australia & New Zealand**
Krystle Sulway-Johansson – **General Manager UK**
Laudy Lahdo (BCom) – **General Manager Middle East**
Fabienne Hajjar (PharmD) – **Senior Manager Qatar and Iran**
Wilma Wu (BA Hons) – **General Manager Hong Kong**

HEAD OFFICE EXECUTIVES

Selene Ng (BCom, BA) – **General Manager Serviced Offices**
Warren James – **Manager International Property Portfolio**
Lachlan Buchanan (BCom) – **Development Manager**
Matthew Baumgartner (BInfTech (SE), CCIE, MBA) – **Chief Information Officer**
Daniel Kukucka (MBA, BE, DipEngPrac) – **Chief Technology Officer**
Steve Gainer – **Global Accounts Japan**

Corporate Governance

The Board has responsibility for the long term financial health and prosperity of Servcorp. The Directors are responsible to the shareholders for the performance of the Company and the Consolidated Entity and to ensure that it is properly managed.

The Board is committed to the principles underpinning the ASX Corporate Governance Council Principles and Recommendations. The Board is continually working to improve the Company's governance policies and practices, where such practices will bring benefits or efficiencies to the Company.

Details of Servcorp's compliance are set out below, and in the ASX principles compliance statement on pages 28 to 35 of this annual report. The information in this statement is current as at 23 August 2017 and has been approved by the Board.

ROLE OF THE BOARD

The Board has adopted a formal statement of matters reserved for the Board. The central role of the Board is to set the Company's strategic direction and to oversee the Company's management and business activities.

Responsibility for management of the Company's business activities is delegated to the CEO and management.

The Board's primary responsibilities are:

- the protection and enhancement of long term shareholder value;
- ensuring Servcorp has appropriate corporate governance structures in place;
- endorsing strategic direction;
- monitoring the Company's performance within that strategic direction;
- appointing the Chief Executive Officer and evaluating his performance and remuneration;
- monitoring business performance and results;
- identifying areas of significant risk and seeking to put in place appropriate and adequate control, monitoring and reporting mechanisms to manage those risks;
- establishing appropriate standards of ethical behaviour and a culture of corporate and social responsibility;
- approving senior executive remuneration policies;
- ratifying the appointment of the Chief Financial Officer and the Company Secretary;
- monitoring compliance with continuous disclosure policy in accordance with the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange;
- monitoring that the Company acts lawfully and responsibly;
- reporting to shareholders;
- addressing all matters in relation to issued securities of the Company including the declaration of dividends;
- ensuring the Board is, and remains, appropriately skilled to meet the changing needs of the Company.

The Board Charter is available on the Company's website; servcorp.com.au

COMPOSITION OF THE BOARD

The size and composition of the Board is determined by the Board, subject to the limits set out in Servcorp's Constitution which requires a minimum of three Directors and a maximum of twelve Directors.

The Board comprises five Directors (two executive and three non-executive). All three non-executive Directors are independent.

There has been no change to the Board since the last annual report, however Mr Taine Moufarrige has returned to an executive position at Servcorp and accordingly is no longer a non-executive Director. Mr Taine Moufarrige resigned as an executive of Servcorp on 31 December 2011 after 15 years of service. From 1 January 2012 to 30 June 2017 he served as a non-executive Director. Effective 1 July 2017 he is returning to an executive role.

The Chairman of the Board, Mr Bruce Corlett, is an independent non-executive Director.

The non-executive Directors bring to the Board an appropriate range of skills, experience and expertise to ensure that Servcorp is run in the best interest of all stakeholders. The skills, experience and expertise of each Director in office at the date of this annual report are set out on pages 36 and 37 of this annual report. The Board will continue to be made up of a majority of independent non-executive Directors. The performance of non-executive Directors was reviewed during the year.

The names of the Directors of the Company in office at the date of this annual report are set out in the table on the following page.

DIRECTORS' INDEPENDENCE

It is important that the Board is able to operate independently of executive management.

The non-executive Directors are considered by the Board to be independent of management. Independence is assessed by determining whether the Director is free of any business interest or other relationship which could materially interfere with the exercise of their unfettered and independent judgement and their ability to act in the best interests of Servcorp.

NAMES OF DIRECTORS IN OFFICE AT THE DATE OF THIS ANNUAL REPORT

DIRECTOR	FIRST APPOINTED	NON-EXECUTIVE	INDEPENDENT	RETIRING AT 2017 AGM	SEEKING RE-ELECTION AT 2017 AGM
B Corlett	19 October 1999	Yes	Yes	No	N/A
R Holliday-Smith	19 October 1999	Yes	Yes	No	N/A
A G Moufarrige	24 August 1999	No	No	No	N/A
T Moufarrige	25 November 2004	No	No	Yes	Yes
M Vaile	27 June 2011	Yes	Yes	Yes	Yes

ELECTION OF DIRECTORS

The Company's Constitution specifies that an election of Directors must take place each year. One-third of the Board (excluding the Managing Director and rounded down to the nearest whole number), and any other Director who has held office for three or more years since they were last elected, must retire from office at each annual general meeting. The Directors are eligible for re-election. Directors may be appointed by the Board during the year. Directors appointed by the Board must retire from office at the next annual general meeting.

Effective 26 May 2017 the Board established a Nomination Committee. Going forward all Director appointments or changes will be dealt with by the Nomination Committee.

CONFLICT OF INTEREST

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that would potentially conflict with those of Servcorp. Where the Board believes that an actual or potential significant conflict exists, the Director concerned, if appropriate, will not take part in any discussions or decision making process on the matter and will abstain from voting on the item being considered. Details of Director related entity transactions with the Company and the Consolidated Entity are set out in Note 23 to the Consolidated financial report.

INDEPENDENT PROFESSIONAL ADVICE

Each Director has the right to seek independent professional advice, at Servcorp's expense, to help them carry out their responsibilities. Prior approval of the Chairman is required, which will not be unreasonably withheld. A copy of any written advice received by the Director is made available to all other members of the Board.

ETHICAL STANDARDS

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of Servcorp.

Codes of conduct, outlining the standards of personal and corporate behaviour to be observed, form part of Servcorp's management and team on-line resources.

DIRECTOR AND OFFICER DEALINGS IN COMPANY SHARES

Servcorp policy prohibits Directors, officers and senior executives from dealing in Company shares or exercising options:

- in the six weeks prior to the announcement to the ASX of the Company's half-year and full-year results; or
- whilst in possession of non-public price sensitive information.

Directors must discuss proposed purchases or sales of shares in the Company with the Chairman before proceeding. If the Chairman proposes to purchase or sell shares in the Company, he must receive approval from the next most senior Director before proceeding. Directors must also notify the Company Secretary when they buy or sell shares in the Company. This is reported to the Board.

In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the ASX, each Director has entered into an agreement with the Company that requires disclosure to the Company of all information needed for it to comply with the obligation to notify the ASX of Directors' holdings and interests in its securities.

The Company's Securities Trading Policy is available on the Company's website; servcorp.com.au

AUDITOR INDEPENDENCE

The Company's auditor Deloitte Touche Tohmatsu (Deloitte) was appointed at the annual general meeting of the Company on 6 November 2003.

Deloitte rotate their audit engagement partner every five years.

Deloitte have established policies and procedures designed to ensure their independence, and provide the Audit and Risk Committee with an annual confirmation as to their independence.

Corporate Governance

DIVERSITY

The Company has a culture that both embraces and achieves diversity in its global operations.

The Company is culturally diverse in its employment practices and has a global culture of employing the best qualified available talent for any position regardless of gender, age or race. The Company benefits from the diversity of its team members and has training programs to assist with developing their skills and with career advancement. The Company travels team members to work in its global locations, giving them exposure to and understanding of various differing cultures and marketplaces.

The Company has a high participation of women across all employment levels. The proportion of women employees in the whole organisation, senior executive positions and on the Board is set out in the following table.

FULL TIME EMPLOYEES	TOTAL NO.	WOMEN %	MEN %
Consolidated entity	827	82%	18%
Senior executive	24	50%	50%
Board	5	0%	100%

"Senior executive" are general managers, senior managers and Head Office executives who report directly to the CEO or COO.

Under the Workplace Gender Equality Act 2012 (WGE Act), any employer with 100 or more employees must submit an Annual Compliance Report detailing the composition of its workplace profile in Australia. Servcorp has lodged its WGE Report for 2017 with the WGE Agency and has received notice that the Company is compliant with the WGE Act.

Shareholders may access the report on the Company's website; servcorp.com.au

CONTINUOUS DISCLOSURE

Servcorp is committed to ensuring that all shareholders and investors are provided with full and timely information and that all stakeholders have equal and timely access to material information concerning the Company. Procedures are in place to ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

The Company Secretary has been appointed as the person responsible for communications with the ASX.

COMMITTEES

The Board does not delegate major decisions to Committees. Committees are responsible for considering detailed issues and making recommendations to the Board. The Board has established three Committees to assist in the implementation of its corporate governance practices

Audit and Risk Committee

The members of the Audit and Risk Committee during the year were:

- Mr R Holliday-Smith (Chair)
- Mr B Corlett
- Mr T Moufarrige (ceased 7 December 2016)
- The Hon. M Vaile (appointed 7 December 2016)

All three current members are independent non-executive Directors.

The Chairman of the Audit and Risk Committee is independent and is not the Chairman of the Board.

The primary function of the Audit and Risk Committee is to assist the Board to meet its oversight responsibilities in relation to:

- ensuring the Company adopts, maintains and applies appropriate accounting and financial reporting processes and procedures;
- reviewing and monitoring the integrity of the Company's financial reports and statements;
- ensuring the Company maintains an effective risk management framework and internal control systems;
- monitoring the performance and independence of the external audit process and addressing issues arising from the audit process.

It is the Committee's responsibility to maintain free and open communication between the Committee and the external auditor and the management of Servcorp.

The external auditors attend all meetings of the Committee. The Chief Executive Officer, the Chief Financial Officer and other Senior Management may attend Committee meetings by invitation.

The Audit and Risk Committee met four times during the year. The Committee meets with the external auditors without management being present before signing off its reports each half year. The Committee Chairman also meets with the auditors at regular intervals during the year.

The responsibilities of the Audit and Risk Committee, as stated in its charter, include:

- reviewing the financial reports and other financial information distributed externally;
- reviewing the Company's policies and procedures for compliance with Australian equivalents to International Financial Reporting Standards;
- monitoring the procedures in place to ensure compliance with the Corporations Act 2001, ASX Listing Rules and all other regulatory requirements;
- assisting management in improving the quality of the accounting function;
- monitoring the internal control framework and compliance structures and considering enhancements;
- overseeing the risk management framework;
- reviewing external audit reports to ensure that, where major deficiencies or breakdown in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- reviewing reports on any major defalcations, frauds and thefts from the Company;
- considering the appointment and fees of the external auditor;
- reviewing and approving the terms of engagement and fees of the external auditor at the start of each audit;
- considering and reviewing the scope of work, reports and activities of the external auditor;
- establishing appropriate policies in regard to the independence of the external auditor and assessing that independence;
- liaising with the external auditor to ensure that the statutory annual audit and half-yearly review are conducted in an effective manner;
- addressing with management any matters outstanding with the auditors, taxation authorities, corporate regulators, Australian Securities Exchange and financial institutions;
- monitoring the establishment of appropriate ethical standards.

The Audit and Risk Committee Charter is available on the Company's website; servcorp.com.au

Nomination Committee

During the year the Board resolved to establish a Nomination Committee.

The Board appointed the following members to the Nomination Committee:

- Mr B Corlett (Chair)
- Mr R Holliday-Smith
- The Hon. M Vaile

The primary function of the Nomination Committee is to support and advise the Board in fulfilling its responsibility to shareholders in ensuring the Board is comprised of individuals who are best able to discharge the reponsibilities of Directors.

Specifically this will include establishing and reviewing the following matters for non-executive Directors on the Board and Board Committees:

- processes for identification of suitable candidates for an appointment or re-election to the Board, and selection procedures;
- necessary and desirable competencies and experience;
- processes to review Director contributions and the performance of the Board as a whole;
- succession plans;
- induction programs;
- assessment of the independence of Directors;
- gender diversity;

Remuneration Committee

The Remuneration Committee members during the year were:

- The Hon. M Vaile (Chair)
- Mr T Moufarrige (ceased 1 July 2017)
- Mr B Corlett
- Mr R Holliday-Smith (appointed 1 July 2017)

The primary function of the Remuneration Committee is to assist the Board in adopting remuneration policy and practices that:

- supports the Board's overall strategy and objectives;
- attracts and retains key employees;
- links total remuneration to financial performance and the attainment of strategic objectives.

Specifically this will include:

- making recommendations to the Board on appropriate remuneration, in relation to both the amount and its composition, for the Chief Executive Officer and senior executives who report to the Chief Executive Officer;
- developing and recommending to the Board short term and long term incentive programs;
- monitoring superannuation arrangements for the Company;
- reviewing recruitment, retention and termination strategies and procedures;
- ensuring the total remuneration policy and practices are designed with proper consideration of accounting, legal and regulatory requirements for both local and foreign jurisdictions;
- reviewing the Remuneration Report for the Company and ensuring that publicly disclosed information meets all legal requirements and is accurate.

The Remuneration Committee shall ensure the Company is committed to the principles of accountability and transparency and to ensuring that remuneration arrangements achieve a balance between shareholder and executive rewards.

During the 2014 year, the Remuneration Committee undertook a comprehensive review of the Company's executive remuneration structures, and review the executive remuneration structures each year to ensure they continue to be appropriate. Details are included in the Remuneration Report on pages 46 to 57 of this annual report.

The Remuneration Committee met three times during the year. The Chief Executive Officer may attend Committee meetings by invitation to assist the Committee in its deliberations.

The Remuneration Committee Charter is available on the Company's website; servcorp.com.au

ASX PRINCIPLES COMPLIANCE STATEMENT

This table provides a description of the manner in which Servcorp complies with the ASX Corporate Governance Principles and Recommendations or, where applicable, an explanation of any departures from the Principles. Compliance has been measured against the 3rd edition of the Principles and Recommendations.

Recommendation	Servcorp Board response
Principle 1 Lay solid foundations for management and oversight *Establish and disclose the respective roles and responsibilities of the Board and management and how their performance is monitored and evaluated.*	
Recommendation 1.1	
Disclose: (a) The respective roles and responsibilities of the Board and management; and (b) Those matters expressly reserved to the Board and those delegated to management.	The Board has adopted a charter that sets out the responsibilities reserved for the Board and those delegated to the managing Director and senior executives. Primary responsibilities are set out on page 24 of this annual report. The Board Charter is available on the Company's website; servcorp.com.au
Recommendation 1.2	
(a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and (b) Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.	(a) The Board Charter requires appropriate checks be undertaken before appointing a person as a Director. (b) All relevant material information to make an informed decision on whether or not to elect or re-elect a Director is provided to shareholders in the notice of meeting.
Recommendation 1.3	
Have a written agreement with each Director and senior executive setting out the terms of their appointment.	The Company has a written agreement with each non-executive Director setting out the terms of their appointment. The Company has a written agreement with all senior executive setting out the terms of their employment.
Recommendation 1.4	
The Company Secretary should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.	The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board, including all matters included in the commentary to this recommendation.
Recommendation 1.5	
(a) Have a diversity policy which includes requirements for the Board or a relevant Committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) Disclose that policy or a summary of it; and (c) Disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the Board or a relevant Committee of the Board in accordance with the entity's diversity policy and its progress towards achieving them, and either: (1) the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the *Workplace Gender Equality Act 2012*, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	The Company has not established a written policy concerning diversity. The Company has a culture that both embraces and achieves diversity in its global operations. The establishment of a written policy with measurable objectives for achieving gender diversity would not, in the Board's view, bring any efficiency or greater benefit to the current diverse culture. The Board has not set measurable objectives for gender diversity. The Company is culturally diverse in its employment practices and has a global culture of employing the best qualified available talent for any position regardless of gender, age or race. The Company benefits from the diversity of its team members and has training programs to assist with developing their skills and with career advancement. The Company travels team members to work in its global locations, giving them exposure to, and understanding of, various differing cultures and marketplaces. The Company has a high participation of women across all employment levels, including in senior executive positions, however there are no women on the Board. The composition of the current Board is merit based and accordingly, in the view of Directors, is appropriate to maximise commercial returns for the benefit of shareholders. The respective proportion of men and women employees in the Company is provided in the table on page 26 of this annual report. "Senior executive" are general managers, senior managers and Head Office executives who report directly to the CEO or COO.

ASX PRINCIPLES COMPLIANCE STATEMENT (CONTINUED)

Recommendation	Servcorp Board response
Principle 1 (cont) Lay solid foundations for management and oversight *Establish and disclose the respective roles and responsibilities of the Board and management and how their performance is monitored and evaluated.*	
Recommendation 1.6	
(a) Have and disclose a process for periodically evaluating the performance of the Board, its Committees and individual Directors; and (b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	The Board operates under a charter and a code of conduct which recognises that strong ethical values must be at the heart of Director and Board performance. The non-executive Directors evaluate individual Director's performance and also the Board's performance. As a tool to evaluation, a questionnaire is completed annually by the non-executive Directors with the responses assessed and discussed by the non-executive Directors. A review was undertaken in the current financial year. There is good interaction between all Directors and with senior executives and it is considered that the non-executive Directors have a solid understanding of the culture and values of the Company.
Recommendation 1.7	
(a) Have and disclose a process for periodically evaluating the performance of senior executives; and (b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	The process for evaluating the performance of senior executives is included in the remuneration report on pages 50 to 53 of this annual report.
Principle 2 Structure the Board to add value *Have a Board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.*	
Recommendation 2.1	
(a) Have a Nomination Committee which: (1) has at least three members, a majority of whom are independent Directors; and (2) is Chaired by an independent Director, and disclose: (3) the charter of the Committee; (4) the members of the Committee; and (5) as at the end of each reporting period, the number of times the Committee met throughout the period and the individual attendances of the members at those meetings; or (b) If it does not have a Nomination Committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	The Board has established a Nomination Committee. (1) all three current members of the Nomination Committee are independent non-executive Directors. (2) the Chair of the Committee is independent. (3) the Nomination Committee Charter is available on the Company's website; servcorp.com.au (4) the members of the Committee are disclosed on page 27 of this annual report. (5) the Committee was formed in May 2017 and did not meet during the year.
Recommendation 2.2	
Have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.	A specific skills matrix has not been developed, however the current non-executive Directors each bring a mix of skills and experience to the Board. The Board has endeavoured to expand this skills mix when considering new appointments.

ASX PRINCIPLES COMPLIANCE STATEMENT (CONTINUED)

Recommendation	Servcorp Board response
Principle 2 (cont) **Structure the Board to add value** *Have a Board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.*	
Recommendation 2.3	
Disclose: (a) The names of the Directors considered by the Board to be independent Directors; (b) If a Director has an interest, position, association or relationship of the type described in Box 2.3 but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and (c) The length of service of each Director.	The names of Directors considered by the Board to be independent, and the length of service of each Director, is disclosed in the Directors' Report on pages 36 and 37. The Board regularly assesses the materiality of any interest, position, association or relationship each non-executive Director has with the Company to determine whether it may interfere with the Director's capacity to bring independent judgement to bear on issues or to act in the best interest of the Company and its shareholders. - Details of related party transactions are disclosed in note 23 to the Consolidated financial report. - Mr T Moufarrige was an Executive of the Company from 1996 to 2011, and returned to an executive role effective 1 July 2017. Accordingly he is not considered to be an independent Director. He is also the son of the CEO and substantial shareholder, Mr A G Moufarrige. The Board considers that these relationships do not interfere with his capacity to bring independent judgement to bear, or to act in the best interests of the Company and its shareholders. - Mr B Corlett and Mr R Holliday-Smith have both been non-executive Directors since 1999. The Board has assessed this length of service and considers that Mr B Corlett and Mr R Holliday-Smith continue to bring independent judgement to bear on all issues and to act in the best interests of the Company and its shareholders.
Recommendation 2.4	
A majority of the Board should be independent Directors.	The Board has a majority of independent Directors
Recommendation 2.5	
The chair of the Board should be an independent Director and, in particular, should not be the same person as the CEO.	The Chair is an independent Director. The roles of Chair and Managing Director/ CEO are not exercised by the same individual.
Recommendation 2.6	
Have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.	All newly appointed Directors must undertake an induction program. The Company provides appropriate professional development opportunities to develop and maintain the skills and knowledge required by Directors.

ASX PRINCIPLES COMPLIANCE STATEMENT (CONTINUED)

Recommendation	Servcorp Board response
Principle 3 **Act ethically and responsibly** *Act ethically and responsibly.*	
Recommendation 3.1	
(a) Have a code of conduct for Directors, senior executives and employees; and (b) Disclose that code or a summary of it.	The Company has established codes of conduct and ethical standards which all Directors, executives and employees are expected to uphold and promote. They guide compliance with legal requirements and ethical responsibilities, and also set a standard for employees and Directors dealing with Servcorp's obligations to external stakeholders. The Company's codes and standards are contained in online resources which provide continual education for all employees on the expected quality of service, respect for fellow employees, commitment to the community and the environment, responsible dealings with clients and suppliers and upholding of the Servcorp brand.
Principle 4 **Safeguard integrity in corporate reporting** *Have formal and rigorous processes that independently verify and safeguard the integrity of corporate reporting.*	
Recommendation 4.1	
(a) Have an Audit Committee which: (1) has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and (2) is Chaired by an independent Director, who is not the Chair of the Board, and disclose: (3) the Charter of the Committee; (4) the relevant qualifications and experience of the members of the Committee; and (5) in relation to each reporting period, the number of times the Committee met throughout the period and the individual attendances of the members at those meetings; or (b) If it does not have an Audit Committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	The Board has established an Audit and Risk Committee. (1) all three current members of the Audit and Risk Committee are independent non-executive Directors. (2) the Chair of the Committee is not the Chair of the Board. (3) the Audit and Risk Committee Charter is available on the Company's website; servcorp.com.au (4) the relevant qualifications and experience of the members of the Committee are provided on pages 26, 36 and 37 of this annual report. (5) the Committee met four times during the year. Attendance at meetings is disclosed at page 38 of this annual report.
Recommendation 4.2	
The Board should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	The CEO and CFO provide such assurances.
Recommendation 4.3	
A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	The external auditor attends the AGM each year and is available to answer questions from shareholders.

Corporate Governance

ASX PRINCIPLES COMPLIANCE STATEMENT (CONTINUED)

Recommendation	Servcorp Board response
Principle 5 Make timely and balanced disclosure *Make timely and balanced disclosure of all matters concerning the company that a reasonable person would expect to have a material effect on the price or value of its securities.*	
Recommendation 5.1	
(a) Have a written policy for complying with continuous disclosure obligations under the Listing Rules; and (b) Disclose that policy or a summary of it.	The Company has established a continuous disclosure compliance plan. The Board and management continually monitor information and events and their obligation to report any matters. Responsibility for communications to the ASX on all material matters rests with the Company Secretary following consultation with the Chair and Managing Director.
Principle 6 Respect the rights of security holders *Respect the rights of security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.*	
Recommendation 6.1	
Provide information about the Company and its governance to investors via its website.	The Company has a corporate governance page on its website. This page includes copies of the Company's annual reports, annual and half-year financial reports, announcements to ASX and other governance documents.
Recommendation 6.2	
Design and implement an investor relations program to facilitate effective two-way communication with investors.	Servcorp aims to communicate clearly and transparently with shareholders and the community. Servcorp actively engages with security holders by holding briefings following the release of annual and half-year results; the time and location of which are notified to the market. The Company also meets with investors upon request and responds to any enquiries made from time to time.
Recommendation 6.3	
Disclose the policies and processes in place to facilitate and encourage participation at meetings of security holders.	The annual general meeting is made available by webinar and phone conference. Shareholders are invited to submit questions prior to the meeting. All shareholders are given a reasonable opportunity to ask questions at the annual general meeting and are encouraged to participate. This includes shareholders present at the meeting and those attending by webinar or phone conference.
Recommendation 6.4	
Give security holders the option to receive communications from, and send communications to, the Company and its security registry electronically.	All shareholders are given the option to receive communications from, and send communications to, the Company and its security registry electronically.

ASX PRINCIPLES COMPLIANCE STATEMENT (CONTINUED)

Recommendation	Servcorp Board response
Principle 7 Recognise and manage risk *Establish a sound risk management framework and periodically review the effectiveness of that framework.*	
Recommendation 7.1	
The Board should: (a) Have a Committee or Committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent Directors; and (2) is Chaired by an independent Director, and disclose: (3) the Charter of the Committee; (4) the members of the Committee; and (5) as at the end of each reporting period, the number of times the Committee met throughout the period and the individual attendances of the members at those meetings; or (b) If it does not have a Risk Committee or Committee that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	The Company has a combined Audit and Risk Committee. Responses to this recommendation have been provided for the Audit Committee in Recommendation 4.1.
Recommendation 7.2	
The Board or a Committee of the Board should: (a) Review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) Disclose, in relation to each reporting period, whether such a review has taken place.	The Board has established an Audit and Risk Committee that is comprised only of non-executive Directors. The Committee reviews the Company's risk management strategy, its adequacy and effectiveness and the communication of risks to the Board. Risk is considered across the financial, operational and organisational aspects of the Company's affairs. A review is undertaken in each reporting period. The Committee is satisfied that the Company and management have a culture of risk control and are gradually formalising the infrastructure of this culture. Although not all policies have been formally documented, the identified risks are tightly controlled and being managed effectively. The Company is heavily reliant on financial controls and senior executive controls. Day to day responsibility is delegated to the Chief Executive Officer and senior management. The Chief Executive Officer and senior management are responsible for: – identification of risk; – monitoring risk; – communication of risk events to the Board; and – responding to risk events, with Board authority. The Audit and Risk Committee works with management to ensure continuous improvement to the risk management and internal control systems.

Corporate Governance

ASX PRINCIPLES COMPLIANCE STATEMENT (CONTINUED)

Recommendation	Servcorp Board response
Principle 7 (cont) **Recognise and manage risk** *Establish a sound risk management framework and periodically review the effectiveness of that framework.*	
Recommendation 7.3	
Disclose: (a) If the Company has an internal audit function, how the function is structured and what role it performs; or (b) If the Company does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	The Company does not have a formal internal audit function, however the Company has: – a diversified business; – many individual floors run by a small team; – tight accounting policies over those floors; – tight cash control over the whole business; – central oversight by head office with systems in place to enable this oversight; and – regular visits and spot checks by business and financial management to all locations. As such, there is a process creating a control framework without a specified, dedicated internal control function.
Recommendation 7.4	
Disclose whether the Company has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	The Board has reviewed and assessed the Company's exposure to economic, environmental and social sustainability risks, and the application of materiality and risk management processes. The Company operates in 23 countries and as such has economic exposure to the global marketplace. The Board considers that the Company does not have any material exposure to economic, environmental or social sustainability risk within the meaning of the guidelines.
Principle 8 **Remunerate fairly and responsibly** *Pay Director remuneration sufficient to attract and retain high quality Directors and design executive remuneration to attract, retain and motivate high quality senior executives and align their interests with the creation of value for security holders.*	
Recommendation 8.1	
(a) Have a Remuneration Committee which: (1) has at least three members, a majority of whom are independent Directors and; (2) is Chaired by an independent Director, and disclose: (3) the Charter of the Committee; (4) the members of the Committee; and (5) as at the end of each reporting period, the number of times the Committee met throughout the period and the individual attendances of the members at those meetings; or (b) If it does not have a Remuneration Committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	The Board has established a Remuneration Committee. (1) all three current members of the Remuneration Committee are independent non-executive Directors. (2) the Chair of the Committee is an independent non-executive Director. (3) the Remuneration Committee Charter is available on the Company's website, servcorp.com.au (4) the members of the Committee are disclosed on page 27 of this annual report. (5) the Committee met three times during the year. Attendance at meetings is disclosed on page 38 of this annual report.

ASX PRINCIPLES COMPLIANCE STATEMENT (CONTINUED)

Recommendation	Servcorp Board response
Principle 8 (cont) **Remunerate fairly and responsibly** *Pay Director remuneration sufficient to attract and retain high quality Directors and design executive remuneration to attract, retain and motivate high quality senior executives and align their interests with the creation of value for security holders.*	
Recommendation 8.2	
Separately disclose the Company's policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.	This information is provided in the Remuneration Report on pages 50 to 53 of this annual report.
Recommendation 8.3	
A company which has an equity- based remuneration scheme should: (a) Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) Disclose that policy or a summary of it.	The Company has an Executive Share Option Scheme. The Company's Securities Trading Policy prohibits participants from entering into an arrangement that would have the effect of limiting their exposure to risk relating to an element of their remuneration that either has not vested or has vested but remains subject to a holding lock ("hedging transactions"). The Company's Securities Trading Policy is available on the Company's website; servcorp.com.au

Directors' Report

The Directors of Servcorp Limited ("the Company") present their report together with the Consolidated financial report of the "Consolidated Entity", being the Company and its controlled entities, for the financial year ended 30 June 2017.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

ALF MOUFARRIGE AO

Managing Director

Appointed August 1999

Chief Executive Officer

Alf is one of the global leaders in the serviced office industry, with almost 40 years of experience. Alf is primarily responsible for Servcorp's expansion, profitability, cash generation and currency management.

Directorships of listed entities in the last three years:

– None.

BRUCE CORLETT AM

Chair
Independent
Non-executive Director
BA, LLB

Appointed October 1999

Member of Audit and Risk Committee
Member of Remuneration Committee
Chair of Nomination Committee

For more than 30 years Bruce has been a Director of many public listed and unlisted companies. He has an extensive business background involving a range of industries including banking, property and maritime.

Bruce is Chair of Australian Maritime Systems Ltd.

Bruce has a lifetime involvement with many community and charitable organisations. He is currently a Director of the Mark Tonga Perpetual Relief Trust and the Buildcorp Foundation and is an Ambassador of The Australian Indigenous Education Foundation.

Directorships of listed entities in the last three years:

– None.

RICK HOLLIDAY-SMITH

Independent
Non-executive Director
BA (HONS), CA, FAICD

Appointed October 1999

Chair of Audit and Risk Committee
Member of Remuneration Committee
Member of Nomination Committee

Rick spent over 11 years in Chicago in the roles of Divisional President of global trading and sales for NationsBank, N.A. and, prior to that, Chief Executive Officer of Chicago Research and Trading Group Limited. Rick also spent over four years in London as Managing Director of Hong Kong Bank Limited, a wholly owned merchant banking subsidiary of HSBC Bank.

Rick is currently Chair of ASX Limited and Cochlear Limited. Rick has a Bachelor of Arts (Hons) from Macquarie University, is a Chartered Accountant and is a Fellow of the Australian Institute of Company Directors.

Directorships of listed entities in the last three years:

– ASX Limited (ASX) since July 2006 (Chair since March 2012);
– Cochlear Limited (COH) since March 2005 (Chair since July 2010).

THE HON. MARK VAILE AO

Independent
Non-executive Director
FAICD

Appointed June 2011

Member of Audit and Risk Committee
Chair of Remuneration Committee
Member of Nomination Committee

Mark had a distinguished career as an Australian Federal Parliamentarian from 1993 to 2008. Ministerial Portfolios held by Mark during his five terms in Federal Parliament include Minister for Transport and Regional Development, Minister for Agriculture, Fisheries and Forestry, Minister for Trade, and Minister for Transport and Regional Services.

Mark also served as Deputy Prime Minister of Australia from July 2005 through to December 2007. He was instrumental in securing or initiating a range of free trade agreements between Australia and the United States, Singapore, Thailand, China, Malaysia and the ASEAN countries.
Since leaving the Federal Parliament in July 2008, Mark has embarked on a career in the private sector utilising his extensive experience across a number of portfolio areas. His current Directorships include Virgin Australia Holdings Limited and StamfordLand Limited and Chair of Whitehaven Coal Limited and SmartTrans Holdings Limited. Mark is also a Director/Trustee of Hostplus Superfund Limited and is a member of Palisade Investment Partners Advisory Board. Mark also provides corporate advice to a number of Australian companies in the international marketplace.

In November 2013, at the request of The Hon. Julie Bishop, Mark accepted an appointment to the Council for Australian-Arab Relations (CAAR).

Directorships of listed entities in the last three years:

– SmartTrans Holdings Limited (SMA) since April 2016 (Chair);
– StamfordLand Corporation Ltd (SLC - listed on SGX) since August 2009;
– Virgin Australia Holdings Limited (VAH) since September 2008;
– Whitehaven Coal Limited (WHC) since May 2012 (Chair).

TAINE MOUFARRIGE

Non-executive Director
BA, LLB

Appointed November 2004

Member of Audit and Risk Committee
(ceased 7 December 2016)
Member of Remuneration Committee
(ceased 1 July 2017)

Taine started his professional career as a lawyer.

He joined Servcorp in 1996 as a Trainee Manager and played a key role in establishing Servcorp locations in Europe, the Middle East, China, Turkey, New Zealand, throughout Australia and in India.

After five and a half years out of Servcorp operations, Taine has rejoined as an executive Director on 1 July 2017.

Taine is a non-executive Director of the European Australian Business Council and a Director of Youngcare. He sits on the Sustainable Fundraising Committee for Lifeline and is a patron of the Sydney Symphony Orchestra Vanguard.

Directorships of listed entities in the last three years:

– None.

GREG PEARCE

Company Secretary
BCOM, CA, AGIA, ACIS

Appointed August 1999

Greg joined Servcorp in 1996 as Financial Controller and was appointed to his current role of Company Secretary during the Company's IPO in 1999. Prior to joining Servcorp, Greg spent 10 years working in the Information Technology business and the 11 years prior to that working in Audit and Business Services.

Greg is a Chartered Accountant and is an Associate of the Governance Institute of Australia.

DIRECTORS' MEETINGS HELD AND ATTENDANCES AT MEETINGS

The number of Directors' and Board Committee meetings held, and the number of meetings attended by each of the Directors of the Company during the financial year is set out in the following table. Only those Directors who are members of the relevant Committees have their attendance recorded. Other Directors do attend Committee meetings from time to time.

DIRECTOR	BOARD	AUDIT & RISK COMMITTEE	REMUNERATION COMMITTEE
Number of meetings held	7	4	3
Number of meetings attended			
B Corlett	6	4	2
R Holliday-Smith	7	4	
A G Moufarrige	7		
T Moufarrige (i)	7	2	3
M Vaile (i)	7	2	3

Notes:

i The Hon. M Vaile was appointed as a member of the Audit and Risk Committee on 7 December 2016. He replaced T Moufarrige who ceased as a member on that date. The attendance recorded is only for meetings held during their respective membership period.

The details of the function and membership of the Committees are presented in the Corporate Governance statement on pages 26 and 27.

DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the companies within the Consolidated Entity, as notified by the Directors to the Australian Securities Exchange in accordance with s205G (1) of the Corporations Act 2001, at the date of this report is set out in the following table.

	ORDINARY SHARES IN SERVCORP LIMITED		
DIRECTOR	DIRECT	INDIRECT	OPTIONS OVER ORDINARY SHARES
B Corlett	-	413,474	-
R Holliday-Smith	-	150,000	-
A G Moufarrige (i)	547,436	49,815,652	-
T Moufarrige (i)	-	1,800,000	-
M Vaile	-	12,930	-

Notes:

i The 1.8 million shares shown as being an indirect interest of T Moufarrige are also included in the indirect interest of A G Moufarrige.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Consolidated Entity has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the Consolidated financial report, or the fixed salary of a full-time employee of the Consolidated Entity or of a related entity) by reason of a contract made by the Consolidated Entity or a related entity with the Director or with a firm of which a Director is a member, or with an entity in which a Director has a substantial financial interest.

OPTIONS GRANTED

During the year, or since the end of the financial year, no options over unissued ordinary shares of the Company were issued (2016: 295,000).

Options granted to Directors or the five most highly remunerated officers of the Company as part of their remuneration are detailed in the Remuneration report on page 53.

OPTIONS ON ISSUE

At the date of this report, unissued ordinary shares of the Company under option are:

- Number of shares - 295,000
- Exercise price - $7.00
- Expiry Date - 2 May 2021

The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

OPTIONS EXPIRED

During the year, or since the end of the financial year, no options over unissued shares expired or were cancelled (2016: Nil).

SHARES ISSUED ON THE EXERCISE OF OPTIONS

During the year, or since the end of the financial year, the Company has not issued any shares as a result of the exercise of an option over unissued shares.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The constitution of the Company provides that the Company must indemnify, on a full indemnity basis and to the full extent permitted by law, each current and former Director, alternate Director or executive officer against all losses or liabilities incurred in that capacity in defending any proceedings, whether civil or criminal, in which judgement is given in their favour or in which they are acquitted or in connection with any application in relation to any such proceedings in which relief is granted under the Corporations Act 2001.

The Company has agreed to indemnify the following current and former Directors of the Company, Mr A G Moufarrige, Mr B Corlett, Mr R Holliday-Smith, The Hon. M Vaile, Mr T Moufarrige and Mrs J King against any loss or liability that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a wilful breach of duty. The agreement stipulates that the Company will meet the full amount of any such liabilities to the extent permitted by law, including reasonable costs and expenses.

The Company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company.

During the financial year the Company has paid insurance premiums in respect of Directors' and officers' liability and legal expenses insurance contracts, for current and former Directors, secretaries and officers of the Company and its controlled entities. The insurance policies prohibit disclosure of the nature of the liability insured against and the amount of the premiums.

CORPORATE GOVERNANCE

A statement of the Board's governance practices is set out on pages 24 to 35 of this annual report.

STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year were the provision of Executive Serviced and Virtual Offices and IT, Communications and Secretarial Services.

There were no significant changes in the nature of the activities of the Consolidated Entity during the year.

CONSOLIDATED RESULTS

Net profit after tax for the financial year was $40.71 million (2016: $39.72 million). Operating revenue was $329.57 million (2016: $328.60 million). Basic and diluted earnings per share was 41.4 cents (2016: 40.4 cents).

	2017 $'000	2016 $'000
Revenue & other income	329,565	328,601
Net profit before tax	48,193	48,840
Net profit after tax	40,711	39,722
Net operating cash flows	54,354	60,575
Cash & investment balances	118,754	114,586
Net assets	267,175	261,020
Earnings per share	$0.414	$0.404
Dividends per share	$0.260	$0.220

DIVIDENDS PAID AND DECLARED

Dividends totalling $25.59 million have been paid or declared by the Company in relation to the financial year ended 30 June 2017 (2016: $21.65 million).

Information relating to dividends in respect of the prior and current financial year, including dividends paid or declared by the Company since the end of the previous year, is set out in the following table.

DIVIDEND		CENTS PER SHARE	TOTAL AMOUNT $'000	DATE OF PAYMENT	FRANKED %	TAX RATE FOR FRANKING CREDIT
In respect of the previous financial year: 2016						
Interim	Ordinary shares	11.00	10,828	23 March 2016	50%	30%
Final	Ordinary shares	11.00	10,828	6 October 2016	50%	30%
In respect of the current financial year: 2017						
Interim	Ordinary shares	13.00	12,796	5 April 2017	50%	30%
Final	Ordinary shares	13.00	12,796	5 October 2017	50%	30%

REVIEW OF OPERATIONS

Revenue and other income from ordinary activities for the twelve months ended 30 June 2017 was $329.57 million, up 0.3% from the twelve months ended 30 June 2016. During the year, the Australian dollar strengthened against all major currencies. In constant currency terms revenue increased by 2.7% compared to the 2016 year.

Net profit before tax for the twelve months to 30 June 2017 was $48.19 million, down 1% from $48.84 million in the prior year. When expressed in constant currency terms, net profit before tax increased by 0.6% compared to the 2016 year.

Net profit after tax for the twelve months to 30 June 2017 was $40.71 million, up 3% from $39.72 million in the prior year, a record result.

Cash and investment balances were $118.75 million at 30 June 2017 (30 June 2016: $114.59 million). Of this balance, $10.82 million has been pledged with banks as collateral for bank guarantees and facilities, leaving an unencumbered cash and investment balance of $107.93 million in the business as at 30 June 2017 (30 June 2016: $99.68 million).

The business generated strong net operating cash flows during the 2017 financial year of $54.35 million, down 10% compared to the 2016 financial year (2016: $60.58 million). Before tax payments, the business produced cash flows of $65.99 million (2016: $72.86 million).

Servcorp footprint

In the 2017 financial year, net capacity increased by 354 offices, growing available office stock by 7%. Servcorp's office expansion in the 2017 financial year has been a measured approach with management continuing to keep focus on increasing overall occupancy of existing office stock. During the 2017 financial year we opened new landmark locations at Tri-Seven Building in Tokyo, Schuman 3 European Quarter in Brussels, International Finance Center Tower 2 in Jakarta, Barangaroo Tower One in Sydney and River Point in Chicago.

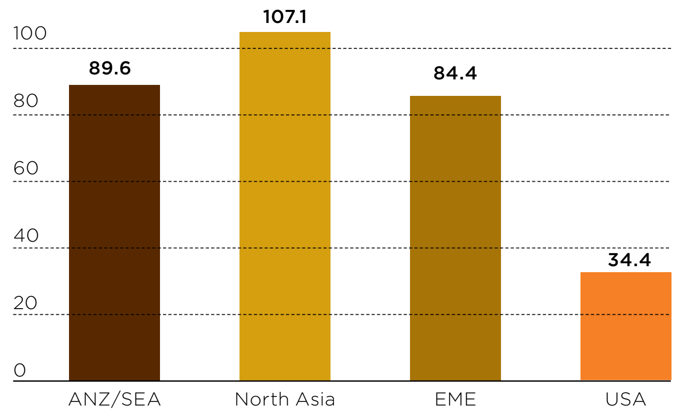
We have added 73 (net) new floors to our footprint since June 2010.

Occupancy of like for like floors open at 30 June 2017 was 76% (30 June 2016: 75%). All floor occupancy was 73%.

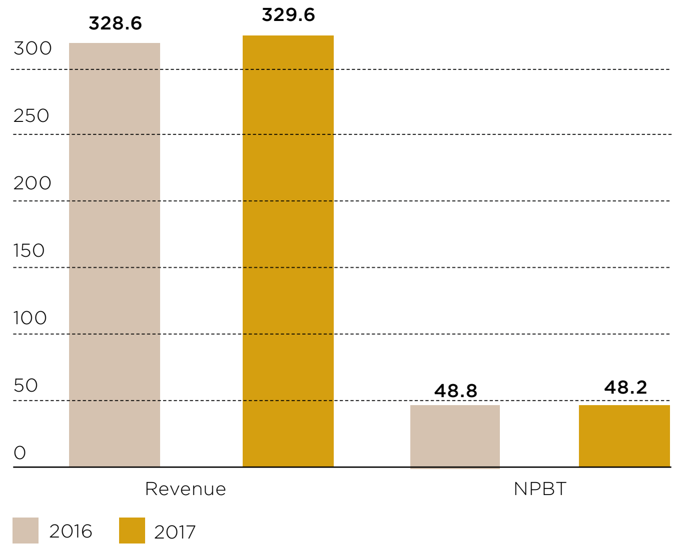
Following this extended period of growth, we continue to focus on increasing the overall occupancy of existing office stock.

As at 30 June 2017, Servcorp operated 155 floors in 55 cities across 23 countries.

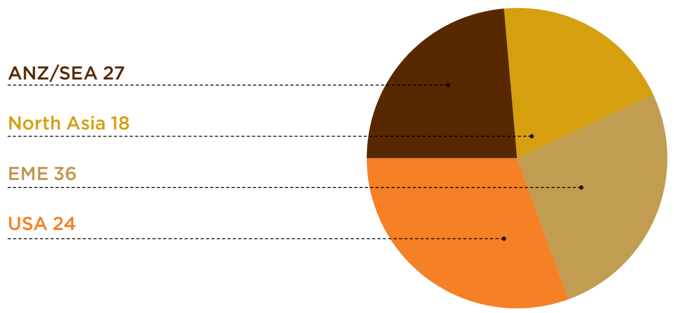
Revenue by Region ($ million)



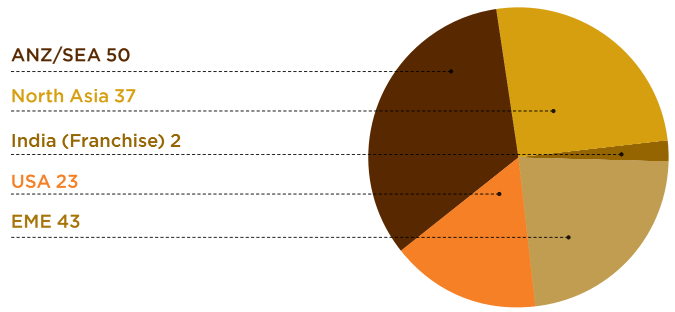
Revenue and NPBT ($ million)



Expansion - 96 months to 30 June 2017



Floors by region - 30 June 2017



Australia, New Zealand and Southeast Asia
On a like for like basis, net profit before tax performance in ANZ/ SEA has increased by 2%.

Australia and New Zealand occupancy is healthy.

The region had two new floors open in the first half of the 2017 financial year; in Barangaroo, Sydney and Jakarta, Indonesia.

North Asia
North Asia, as a whole, produced a pleasing result in the 2017 financial year, reporting like for like net profit before tax growth of 5%.

During the year, a new floor was opened in the Tri-Seven Building in Tokyo.

Europe and the Middle East
Like for like floors in the Europe and Middle East segment produced a weaker result in the 2017 financial year.

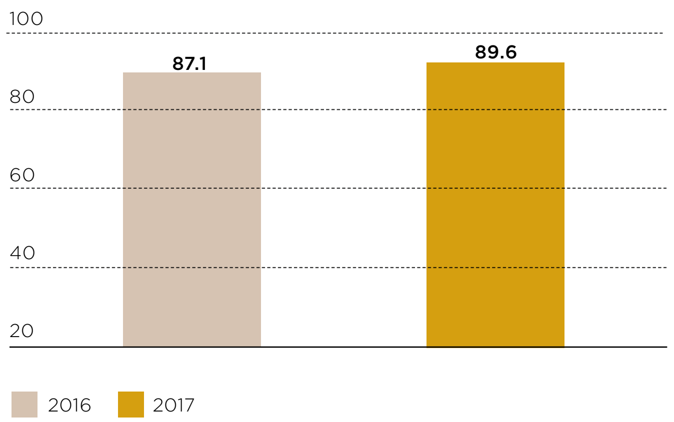
Two new floors in Schuman 3, Brussels were opened during the year.

USA
Notwithstanding acceptable performances across a range of locations, the USA underperformed and has not met its forecast for the 2017 financial year. On a like for like basis, the USA remains EBITDA positive.

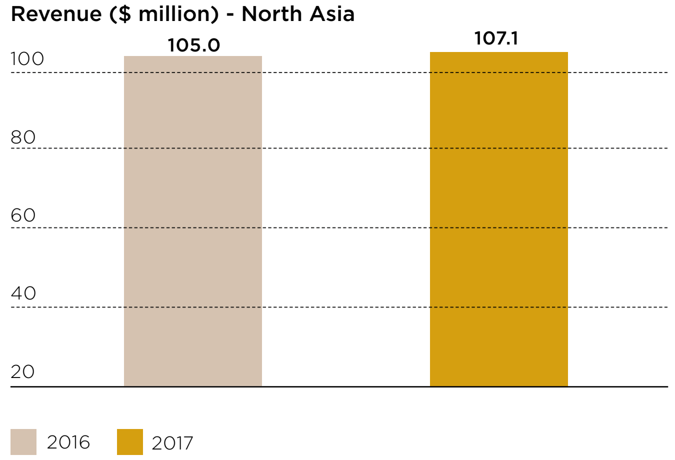
Our Chief Operating Officer, Mr Marcus Moufarrige, relocated to New York City in March 2017 and is focussed on improving the performance of the USA business.

One new floor in River Point, Chicago was opened during the year.

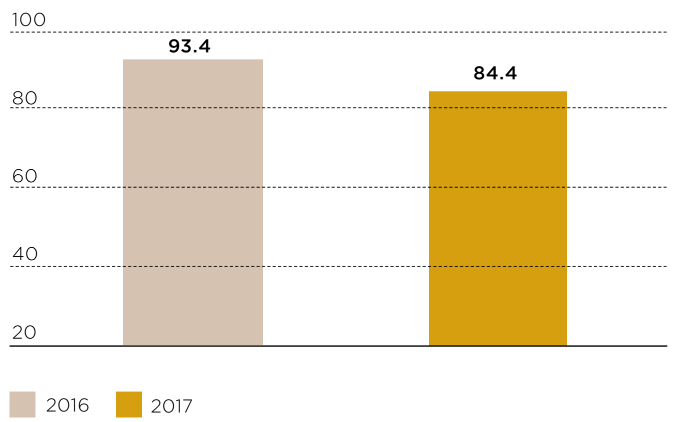
Revenue ($ million) - ANZ/ SEA



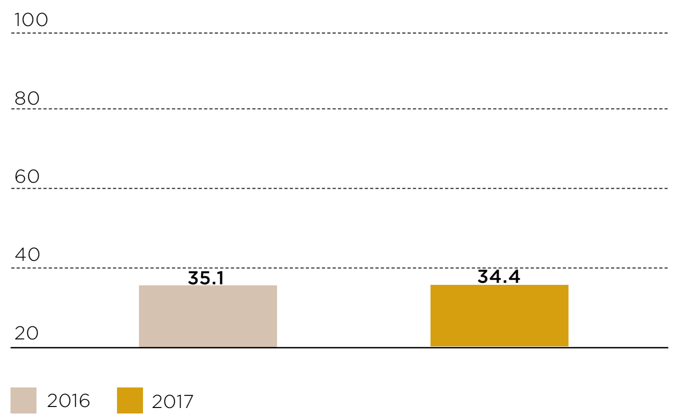
Revenue ($ million) - North Asia



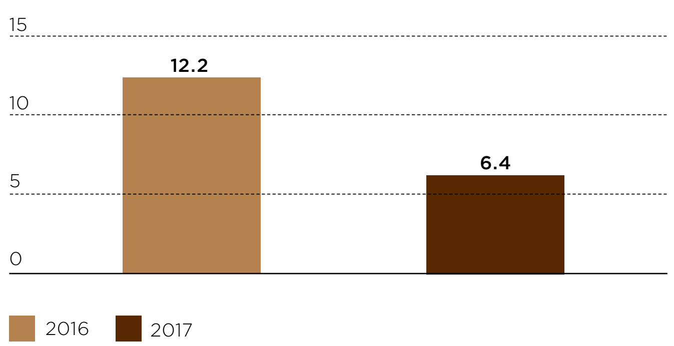
Revenue ($ million) - EME



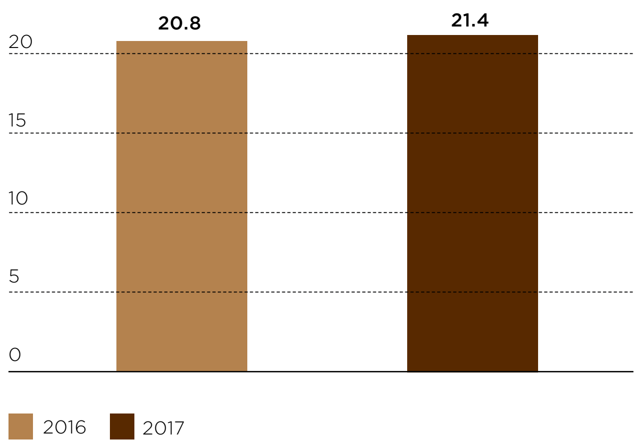
Revenue ($ million) - USA



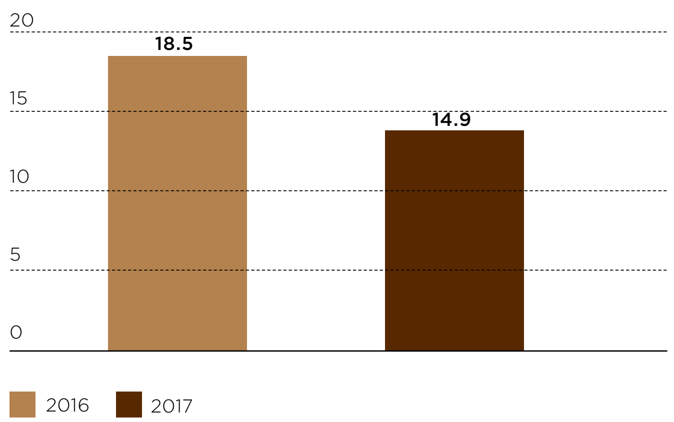
NPBT ($ million) - ANZ/ SEA



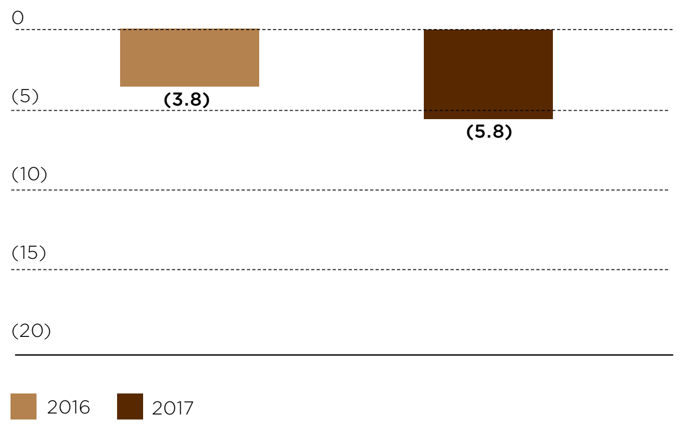
NPBT ($ million) - North Asia



NPBT ($ million) - EME



NPBT ($ million) - USA



Directors' Report

NEW LOCATIONS

New locations opened by the Consolidated Entity during the course of the financial year are set out in the following table.

CITY	LOCATION	OFFICES	OPENED
Tokyo	Level 8, Tri-Seven Building	83	July 2016
Paris	Ground Floor, Edouard VII Opéra Madeleine	Coworking	September 2016
Brussels	Levels 5 and 6, Schuman 3, European Quarter	52	October 2016
Jakarta	Level 33, International Financial Centre, Tower 2	52	October 2016
Sydney	Level 35, Barangaroo International Tower 1	103	November 2016
Chicago	Level 17, River Point	93	January 2017

In addition, the following locations were expanded by the Consolidated Entity during the course of the financial year.

CITY	LOCATION	ADDITIONAL OFFICES	EXPANDED
New York	Level 23, 1330 Avenue of the Americas	11	August 2016
New York	Level 26, The Seagram Building	9	June 2017

EVENTS SUBSEQUENT TO BALANCE DATE

Dividend

On 23 August 2017 the Directors declared a 50% franked final dividend of 13.00 cents per share, payable on 5 October 2017.

The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 30 June 2017.

The Directors are not aware of any matter or circumstance, other than that referred to above or in the financial statements or notes thereto, that has arisen since the end of the year that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.

LIKELY DEVELOPMENTS

The Consolidated Entity will continue to pursue its policy of seeking to increase the profitability and market share of its major business sectors during the next financial year.

ENVIRONMENTAL MANAGEMENT

The Consolidated Entity's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

ROUNDING OFF

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, amounts in the Financial Report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

NON-AUDIT SERVICES

During the year Deloitte Touche Tohmatsu, the Company's auditor, has performed certain "non-audit services" in addition to their statutory duties.

The Board of Directors has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by, and did not compromise the auditor independence requirements of, the Corporations Act 2001 for the following reasons:

– Non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee; and

– The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 58 and forms part of this report.

Details of the amounts paid or payable to the auditor of the Company, Deloitte Touche Tohmatsu and its related practices for audit and non-audit services provided during the year are set out in Note 25 to the Consolidated financial report.

REMUNERATION REPORT

The Remuneration Report for the financial year ended 30 June 2017 is set out on pages 46 to 57 and forms part of this report.

Signed in accordance with a resolution of the Directors pursuant to section 298(2) of the Corporations Act 2001.

A G Moufarrige AO
Managing Director and CEO

Dated at Sydney this 23rd day of August 2017.

Remuneration Report

Contents

47 INTRODUCTION
Describes the scope of the Remuneration Report and the key management personnel (KMP) whose remuneration details are disclosed.

49 REMUNERATION GOVERNANCE
Describes the role of the Board and the Remuneration Committee, and the use of remuneration consultants when making remuneration decisions.

50 NON-EXECUTIVE DIRECTOR REMUNERATION
Provides details regarding the fees paid to non-executive Directors.

50 EXECUTIVE REMUNERATION
Outlines the principles applied to executive KMP remuneration decisions and the framework used to deliver the various components of remuneration, including an explanation of the linkages between Company performance and remuneration.

53 EMPLOYEE SHARE SCHEME AND OTHER EQUITY INCENTIVE INFORMATION
Provides details regarding Servcorp's employee equity plans including that information required by the Corporations Act 2001 and applicable accounting standards.

53 EMPLOYMENT AGREEMENTS
Provides details regarding the contractual arrangements between Servcorp and the executives whose remuneration details are disclosed.

54 NON-EXECUTIVE DIRECTOR REMUNERATION TABLE
Provides details of the nature and amount of each element of the remuneration of each non-executive Director of Servcorp Limited for the year ended 30 June 2017.

56 EXECUTIVE KMP REMUNERATION TABLE
Provides details of the nature and amount of each element of the remuneration of each executive KMP of Servcorp Limited for the year ended 30 June 2017.

INTRODUCTION

Servcorp is a geographically diverse business. We have significantly expanded our global footprint in recent years in an effort to exploit our brand, take advantage of new market opportunities and diversify our risk. It is acknowledged that the markets in which we operate are subject to changing economic factors and often these may be counter cyclical to the Australian market. For the financial year ended 30 June 2017, the percentage of offshore revenue as a proportion of total revenue was more than 80%.

Skilled, experienced local management in each jurisdiction, supported by Servcorp's market leading IT platform and proprietary product offerings, are critical to out continued success.

The Board's philosophy and approach to executive remuneration is to balance fair remuneration for skills and expertise with a risk and reward framework attuned to local market conditions but that supports the growth aspirations of Servcorp as a global business.

The Board undertook a comprehensive review of executive remuneration during the 2014 financial year. This review was considered to be necessary in response to the 44% "no" vote recorded against the Remuneration Report for the financial year ended 30 June 2013, representing a first strike. The key initiatives implemented following this review, supported by independent external advice, included:

– the Remuneration Report was reformatted with expanded disclosure principles adopted;

– the targets for short term incentives (STI) were re-evaluated. There is STI opportunity for executive KMP with the targets aligned to the Consolidated Entity's global and regional earnings;

– a global gateway net profit before tax was imposed whereby any global STI is not paid unless a predetermined threshold is achieved. In the 2014 to 2016 financial years the threshold was an increase of 20% compounded annually above the 2013 financial year base;

– the STI opportunity for selected executive KMP was slightly modified;

– the deferral of STI was considered but not introduced, because it is an unfamiliar concept in many of the countries in which we operate and the costs of implementation outweigh the benefits;

– the Board has retained a limited ability to exercise discretion;

– the reintroduction of a long term incentive (LTI) scheme was considered but it was decided that the cost / benefit of offering equity in multiple taxation and securities law jurisdictions to individual executives was unnecessarily complex and the Board is satisfied that the Company's existing incentive and retention strategies are appropriate;

– selected Board and executive KMP remuneration were benchmarked to relevant local market comparisons to ensure the remuneration of these key positions meets external expectations. This remains an ongoing process;

– the Board met with a number of shareholders and proxy advisor CGI GlassLewis, who had reported on our Remuneration Report in the 2013 year, in relation to these matters;

– Directors' fees were increased effective from 1 July 2013, as disclosed. Directors' fees had remained fixed since 1 January 2010.

The response from shareholders to the comprehensive review has been positive. The changes adopted in the 2014 financial year are reviewed annually.

The Board introduced two new executive remuneration components in the 2016 financial year:

– an additional STI opportunity was introduced to provide incentive for executive KMP to outperform their targets. Executive KMP with a region target will receive an extra STI amount if they outperform their region target by an amount which will be set each year. Further, if the global target is exceeded by more than a set percentage executive KMP will receive an extra STI amount.

– in recognition of the need to have a deferred STI component, the Board issued Options to certain KMP. These were issued under the terms of the Servcorp Limited Executive Share Option Scheme.

The Board reset the global gateway net profit before tax for global STI for the 2017 to 2019 financial years; a predetermined threshold was set at an increase of 10% compounded annually from the 2016 financial year base of $48.84 million;

The Board has not introduced any new executive remuneration components in the 2017 financial year. In recognition of the downgrade of profit expectations in 2017, the Board has reset the global gateway net profit before tax for the 2018 and future financial years.

The Board believes Servcorp's approach to non-executive Director and executive KMP remuneration is balanced, fair and equitable and designed to achieve an alignment of interests between executive reward and shareholder expectations and wealth.

The Board will continue to welcome feedback from shareholders on Servcorp's remuneration practices or on the communication of remuneration matters in the Remuneration Report for the financial year ended 30 June 2017 and beyond.

Remuneration Report

INTRODUCTION (CONTINUED)

Scope

This Remuneration Report sets out, in accordance with the relevant Corporations Act 2001 (Corporations Act) and accounting standard requirements, the remuneration arrangements in place for KMP of Servcorp during the financial year ended 30 June 2017.

Key management personnel

Key management personnel have authority and responsibility for planning, directing and controlling the activities of Servcorp and comprise the non-executive Directors, and executive KMP (being the Executive Director and other senior executives named in this report). Details of the KMP during the year are provided in the following table.

	TITLE	CHANGE IN 2017
NON-EXECUTIVE DIRECTORS		
Bruce Corlett	Chairman Member, Audit & Risk Committee Member, Remuneration Committee Chair, Nomination Committee	Full year Nomination Committee was formed in May 2017
Rick Holliday-Smith	Director Chair, Audit & Risk Committee Member, Remuneration Committee Member, Nomination Committee	Full year Appointed to Remuneration Committee effective 1 July 2017 Nomination Committee was formed in May 2017
Taine Moufarrige	Director Member, Audit & Risk Committee Member, Remuneration Committee	Full year Ceased as a member of the Audit and Risk Committee effective 7 December 2016 Ceased as a member of the Remuneration Committee effective 1 July 2017
The Hon. Mark Vaile	Director Member, Audit & Risk Committee Chair, Remuneration Committee Member, Nomination Committee	Full year Appointed to Audit and Risk Committee effective 7 December 2016 Nomination Committee was formed in May 2017
EXECUTIVE DIRECTOR		
Alf Moufarrige	Chief Executive Officer	No change. Full year
OTHER EXECUTIVE KMP		
Marcus Moufarrige	Chief Operating Officer	No change. Full year
Jennifer Goodwyn	Vice President / General Manager - USA	Ceased 31 December 2016
Liane Gorman	General Manager - Australia & New Zealand	No change. Full year
Laudy Lahdo	General Manager - Middle East	No change. Full year
Olga Vlietstra	General Manager - Japan	No change. Full year
Anton Clowes	Chief Financial Officer	No change. Full year

REMUNERATION GOVERNANCE

This section explains the role of the Board and the Remuneration Committee, and use of remuneration consultants when making remuneration decisions in respect of non-executive Directors and executive KMP.

Role of the Board and the Remuneration Committee

The Board is responsible for Servcorp's global remuneration strategy and policy. Consistent with this responsibility, the Board has established the Remuneration Committee which comprises solely non-executive Directors, with a majority being Independent.

The role of the Remuneration Committee is set out in its Charter, which is reviewed annually. In summary, the Remuneration Committee's role includes:

- ensure that the appropriate procedures exist to assess the remuneration levels of the Chairman, other non-executive Directors, executive Directors, direct reports to the CEO, Board Committees and the Board as a whole;
- ensure that Servcorp meets the requirements of ASX Corporate Governance Principles and Recommendations, and other relevant guidelines;
- ensure that Servcorp adopts, monitors and applies appropriate remuneration policies and procedures;
- ensure that reporting disclosures related to remuneration meet the Board's disclosure objectives and all relevant legal and accounting standard requirements;
- develop, maintain and monitor appropriate talent management programs including succession planning, recruitment, development; and retention and termination policies and procedures for senior management; and
- develop, maintain and monitor appropriate superannuation and other relevant pension benefit arrangements for Servcorp as required by law.

Further information on the Remuneration Committee's role, responsibilities and membership are contained in the Corporate Governance section on page 27.

Use of remuneration consultants

During the 2017 financial year, no remuneration consultancy contracts were entered into by Servcorp.

During the 2016 financial year, remuneration consultancy contracts were entered into by Servcorp and accordingly the disclosures required under section 300A(1)(h) of the Corporations Act 2001 are provided in the following tables.

ADVISOR / CONSULTANT – 2016	SERVICES PROVIDED	REMUNERATION CONSULTANT FOR THE PURPOSE OF THE CORPORATIONS ACT
Ian Crichton, Remuneration Consultant Crichton + Associates Pty Ltd	Review of the Servcorp Limited Executive Share Option Scheme and general advice on proposed changes to the existing ESOS, participant guides and supporting documentation.	No.

Key questions regarding use of remuneration consultants

QUESTION	ANSWER
Did the remuneration consultant provide remuneration recommendations in relation to any of the executive KMP for the 2016 financial year?	No.
How much was the remuneration consultant paid by Servcorp for remuneration related and other services?	Remuneration services: Crichton + Associates Pty Ltd $15,423; Other services: Nil
What arrangements did Servcorp make to ensure that the making of the remuneration recommendations would be free from undue influence by the executive KMP?	Servcorp maintains a protocol which governs the procedure for procuring advice relating to KMP remuneration. The protocol includes a process for the engagement of the remuneration consultant, the provision of information to the remuneration consultant and the communication of remuneration recommendations.
Is the Board satisfied that the remuneration information provided was free from any such undue influence?	Yes, the Board is satisfied.
What are the reasons for the Board being so satisfied?	The reasons are the Chairman of the Remuneration Committee had oversight of all requests for remuneration information, and the protocol with respect to the procurement of remuneration related advice remains in place.

Remuneration Report

NON-EXECUTIVE DIRECTOR REMUNERATION

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed by the Board. The Board ensures non-executive Directors' fees and payments are appropriate and in line with the market. Non-executive Directors are not employed under a contract and do not receive share options or other equity based remuneration.

Directors' fees

Non-executive Directors' fees are determined by the Board within an aggregate Directors' fees limit approved by shareholders.

The fees limit currently stands at $500,000 per annum inclusive of payments for superannuation. This limit was approved at the 2011 annual general meeting.

The most recent review of Directors' fees was effective 1 July 2013. Directors' fees had not been increased since 1 January 2010. Effective 1 July 2013, Non-executive Directors' fees were set as:

- Chair - $175,000 per annum including superannuation;
- Non-executive - $100,000 per annum including superannuation;
- Chair of the Audit and Risk Committee - an additional $10,000 per annum including superannuation.

Additional fees are not paid for membership of Board committees other than as referred to in the previous paragraph.

As announced to the ASX, the Company entered into a consultancy agreement with Mr T Moufarrige effective from 1 March 2017. Mr T Moufarrige assisted management for the period from 1 March to 30 June 2017 with supervision of Servcorp's locations in Malaysia, Indonesia, Saudi Arabia and Turkey. Mr T Moufarrige was paid consultancy fees of $20,000 per month, in addition to his Director fee, as a special exertion fee in consideration of these extra services.

Retirement allowances for Directors

Non-executive Directors are not entitled to retirement allowances.

Details of remuneration

Details of the nature and amount of each element of the remuneration of each non-executive Director of Servcorp Limited for the year ended 30 June 2017 are set out in the table on pages 54 and 55.

Minimum shareholding requirement

Servcorp does not have a minimum shareholding requirement for non-executive Directors. It is noted, however, that all non-executive Directors are shareholders of the Company.

EXECUTIVE REMUNERATION

Remuneration philosophy and principles

The Board recognises that the Consolidated Entity's performance is dependent on the quality and contribution of its employees, particularly the executive KMP. To achieve its financial and operating objectives, Servcorp must be able to attract, retain and motivate appropriately qualified and skilled executives.

The objective of the executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of Servcorp's strategic objectives particularly its short, medium and long term earnings.

Executive remuneration is balanced between fixed and incentive pay. In determining the appropriate balance, regular reviews are undertaken that involve cross referencing position descriptions to reliable accessible remuneration data in the markets in which Servcorp operates.

Servcorp's executive remuneration policy and principles are designed to ensure that the Consolidated Entity:

- provides competitive rewards that attract, retain and motivate our key executives;
- encourages loyalty and commitment to Servcorp;
- builds a structure for growth and includes appropriate succession planning;
- structures remuneration at a level that reflects the executive's duties and accountabilities and is competitive in the markets in which it operates;
- complies with applicable legal requirements and appropriate standards of governance.

Remuneration structure and elements

The executive KMP remuneration and reward framework at Servcorp currently has three components:

- Fixed remuneration;
- Short term incentives; and
- Options

The combination of these comprises the executive KMP total targeted remuneration opportunity.

Fixed remuneration

Fixed remuneration is reviewed each year and adjusted to changes in job role, promotion, market practice, internal relativities and performance. Remuneration for the 2017 financial year and changes from 2016 are set out in the table on pages 56 and 57.

Short term incentives

Short term incentives (STI) are awarded based on achievement against targets set at the beginning of each financial year. As previously stated, the basis of the STI was reviewed and changes were made to the scheme to apply for the 2014 financial year and beyond. It is noted that Alf Moufarrige, the CEO, founder and major shareholder, has elected not to participate in the STI scheme.

Under the revised STI scheme, an STI dollar value is set for each executive KMP which represents the target STI that can be awarded for achieving target for the relevant year. The target STI opportunity for the 2017 financial year ranged between $65,000 and $110,000. The target STI opportunity as a percentage of fixed remuneration ranged between 14.7% and 31.0% with the average being 20.1%. The target STI opportunity range for achieving target and percentage of fixed remuneration will be slightly higher for the 2018 financial year.

STI targets will be set in advance each year and will be challenging. The STI targets for the 2017 financial year were determined based on a matrix of Consolidated Entity net profit before tax (global STI target) and region operating profit (region STI target), where appropriate. Where executive KMP have a direct responsibility for a region, their total STI potential was allocated between their region STI target and the global STI target. Their region STI allocation ranged between 30% and 66% of their total potential STI, with the majority being 50%.

A gateway consolidated net profit before tax, based on a 10% per annum compound increase over the 2016 financial year net profit before tax, needed to be achieved before any global STI pay out. It is intended that a similar approach to STI, with a 5% per annum compound growth over the 2017 financial year net profit before tax, will be applied for the next two financial years. The gateway consolidated net profit before tax is provided in the following table.

FINANCIAL YEAR ENDING 30 JUNE	2016 BASE	2017 GATEWAY	2018 GATEWAY	2019 GATEWAY
Consolidated net profit before tax ($ million)	48.8	53.7	50.0	52.5

Global STI will be calculated as follows:

- If consolidated net profit before tax meets the global gateway - 50% of the global STI opportunity;
- If consolidated net profit before tax meets the global target - 100% of the global STI opportunity;
- If consolidated net profit before tax falls between the global gateway and target - the global STI paid will be calculated as a percentage between 50% and 100% of global STI opportunity on an incremental basis, in the same proportion as the net profit before tax is to gateway and target.

Region STI will only be paid if the region STI target is met. There will be no gateway.

There is also an additional STI opportunity to provide incentive for executive KMP to outperform their targets. Executive KMP with a region target can receive an extra $50,000 if they outperform their region target by in excess of $2.0 million. Further, if the global target is exceeded by more than $3.0 million executive KMP receive an extra STI ranging between $15,000 to $55,000. The total additional STI opportunity if all executive KMP outperform their region and global target is $420,000.

Long term equity incentives

The Board, after detailed consideration, has decided not to offer long term equity incentives (LTI) to any executive KMP. The reason for this decision is that:

- Servcorp has a small number of executive KMP in many geographic locations and the cost and complexity of offering equity to these executive KMP outweighs the benefit to shareholders, in the Board's opinion;
- Servcorp has a very strong culture, and most executive KMP are long serving employees. The Board does not consider offering an LTI is necessary or desired for executive KMP to achieve the Company's long term strategic objectives.

Deferred short term incentives

As stated above, an LTI component is not considered best practice for Servcorp. The Board, following due consideration, has however decided to introduce a deferred STI component for executive KMP. The most effective method to achieve this was considered to be the utilisation of the Servcorp Limited Executive Share Option Scheme (ESOS). The Board has amended the ESOS to reflect current legislation, and granted Options to certain executive.

A summary of the terms of the Options are as follows:

Grant date:	31 March 2016
Issue date:	02 May 2016
Exercise price:	$7.00 per Option
Vesting conditions:	EPS performance hurdle of 15% growth in the financial year of issue Continuous service until 2 May 2019
Vesting date:	02 May 2019
Exercise period:	Two years, from vesting date to expiry date
Expiry date:	2 May 2021
Option value:	$0.9589

Termination benefits

There are no termination of employment agreements in place for executive KMP. Any termination benefit paid to executive KMP would be limited to 12 months remuneration as required by law and in most cases would be determined based on statutory minimum requirements, years of service and the nature of the termination.

Clawback

Servcorp has no policy on clawback but will ensure compliance with any legal or ASX requirements in this regard. There have been no circumstances where clawback would have applied.

Minimum shareholding requirements

Servcorp does not have a minimum shareholding requirement for executive KMP. It is noted that the majority of executive KMP are shareholders of the Company.

EXECUTIVE REMUNERATION (CONTINUED)

Relationship between Consolidated Entity performance and executive KMP remuneration

The relationship between Consolidated Entity performance and executive KMP remuneration is important to ensure that there is a clear and appropriate correlation and alignment of interests between shareholders and executive KMP.

Key financial indicators

Servcorp's principal activities and financial performance are explained in detail in the Review of Operations section of the Directors' Report on pages 40 to 44.

A summary of Servcorp's financial performance over the last five years is provided in the following table.

	FINANCIAL YEAR ENDED 30 JUNE				
MEASURE	**2013**	**2014**	**2015**	**2016**	**2017**
Total revenue ($million)	208	242	277	329	330
Net profit before tax ($million)	27.6	34.3	41.2	48.8	48.2
Net profit after tax ($million)	21.3	26.3	33.1	39.7	40.7
Basic earnings per share (cents)	21.6	26.8	33.7	40.4	41.4
Dividend per share (cents)	15.0	20.0	22.0	22.0	26.0
Share price as at 30 June ($)	$3.21	$4.80	$5.84	$6.91	$5.70
Offices	3,837	4,275	4,920	5,397	5,751
Number of locations	117	122	131	134	138

For the last five financial years from 2013 to 2017, Servcorp has achieved significant increases in profitability; year on year net profit before tax has increased on average 21% per annum. The 2017 financial year has been challenging, with net profit before tax being consistent with the prior year. Net profit after tax was up 3%, to a record level.

Despite the flat net profit, underlying cash flows have remained strong, and the dividends paid with respect to the 2017 financial year have been increased. Servcorp's share price more than doubled from 2013 to 2016. Despite a lower share price at 30 June 2017, this represents a most pleasing total shareholder return (TSR) performance over the five financial years.

Executive KMP remuneration in comparison to Consolidated Entity performance

With the decreased earnings in the 2017 financial year, global net profit before tax targets were not achieved. Some individual regions met their targets.

The table below sets out the STI awarded to each executive KMP. One executive KMP met their individual region target and their outperform target, resulting in a payment in excess of their target opportunity. The variable pay opportunity for executive KMP paid out represents 27.3% of the maximum opportunity.

The individual 'at risk' rewards paid in the 2017 financial year to executive KMP and the percentage of their maximum opportunity is provided in the following table.

EXECUTIVE KMP	STI AWARDED $	% OF TARGET OPPORTUNITY	OPTIONS AWARDED NO.
Marcus Moufarrige	-	0%	-
Jennifer Goodwyn	-	0%	-
Liane Gorman	30,000	30%	-
Laudy Lahdo	-	0%	-
Olga Vlietstra	100,000	100%	-
Anton Clowes	20,000	31%	-

Servcorp has a very strong culture focussing on sales and generation of shareholder wealth. Most of the executive KMP are long-serving employees. All but two have been employed for more than 14 years and (excluding the CEO) they have on average more than 16 years' service. All executive KMP are aware of the need to perform. Each executive is involved in the target setting for the business and accepts the challenging targets set.

If our forward net profit before tax targets are met, then shareholders, in the opinion of the Board, will be satisfied with the Consolidated Entity's performance and executive KMP will receive the maximum remuneration opportunity.

If executive KMP fail to meet their targets, the 'at risk' component of executive KMP remuneration will be heavily discounted. In this way the alignment of Consolidated Entity performance and executive KMP remuneration will be in direct correlation and be unambiguous.

EMPLOYEE SHARE SCHEME AND OTHER EQUITY INCENTIVE INFORMATION

As mentioned earlier in this report, the Board introduced a deferred STI component in the 2016 financial year. This was achieved by issuing Options under the Servcorp Limited Executive Share Option Scheme (ESOS).

The ESOS was introduced in 1999 and was first approved by shareholders on 19 October 1999 and subject to various amendments until November 2008. Options were last granted under the scheme on 22 September 2008, but have since lapsed. The ESOS was amended by the Board on 24 March 2016 to update it to comply with current legislation.

In the current financial year, no Options have been granted.

In the 2016 financial year, the Directors granted 255,000 Options under the ESOS to executive KMP. Options were issued to KMP taking into account performance and length of service, as recommended by the CEO and adopted by the Remuneration Committee and Board. Details of Options granted and on issue are provided in the Directors' Report on page 39.

Other than the Options issued as detailed above, at the date of this report there are no shares, rights, options or other equity incentives held by executive KMP and subject to vesting restrictions.

Future offers under the ESOS or an alternative employee share scheme may be considered by the Board in the future.

SPECIAL RETENTION INCENTIVE

During the year the Board identified that the retention of Ms Olga Vlietstra as General Manager in Japan was critical to the success of this key region, which contributes significantly to the profit of the Consolidated Entity.

The Board decided to offer Ms Vlietstra a special retention incentive, subject to service conditions. Ms Vlietstra was provided with an option to purchase from Servcorp an apartment currently owned in Tokyo. A summary of the terms of the option are as follows:

Service condition:	Ms Vlietstra must remain employed in continuous service in Japan until 30 June 2019
Reward if Service Condition is met:	Option to purchase Servcorp's Tokyo apartment at its market value at time of offer, adjusted for inflation
Vesting date:	1 July 2019
Market value:	JPY 373,000,000
Exercise period:	Two years, from vesting date to expiry date
Expiry date:	30 June 2021

EMPLOYMENT AGREEMENTS

There are no employment agreements in place for any executive KMP.

Any termination benefits provided to a Servcorp executive KMP would be determined by reference to length of service, the reason for cessation of employment, statutory requirements and generally accepted market practice relevant to the position's seniority. In any event, termination benefits would be restricted to no more than one times fixed remuneration.

NON-EXECUTIVE DIRECTORS' REMUNERATION

NAME AND TITLE	YEAR	SHORT TERM EMPLOYEE BENEFITS: SALARY AND FEES $	CASH PROFIT-SHARING AND BONUSES $	NON-MONETARY BENEFITS $	OTHER SHORT TERM BENEFITS $	POST-EMPLOYMENT BENEFITS: SUPER BENEFITS $	OTHER POST-EMPLOYMENT BENEFITS $
B Corlett Non–executive director	2017	159,818	–	–	–	15,182	–
	2016	159,818	–	–	–	15,182	–
R Holliday–Smith Non–executive director	2017	100,457	–	–	–	9,543	–
	2016	100,457	–	–	–	9,543	–
T Moufarrige (ii) Non–executive director	2017	91,325	–	3,991	80,000	8,675	–
	2016	91,325	–	–	–	8,675	–
M Vaile Non–executive director	2017	91,325	–	–	–	8,675	–
	2016	91,325	–	–	–	8,675	–
Aggregate	2017	442,925	–	3,991	80,000	42,075	–
	2016	442,925	–	–	–	42,075	–

NAME AND TITLE	YEAR	SHARE BASED PAYMENTS: EQUITY OPTIONS & SHARES $	TERMINATION BENEFITS $	TOTAL PAYMENTS AND BENEFITS $	SHORT TERM INCENTIVE GRANTS: STI PAID IN CASH %	STI ACCRUED AND NOT YET DUE %	STI FORFEITED %	MAXIMUM FUTURE VALUE OF VESTED STI $	LONG TERM INCENTIVE GRANTS: LTI PAID IN CASH %	LTI ACCRUED AND NOT YET DUE %	LTI FORFEITED %
B Corlett Non–executive director	2017	–	–	175,000	–	–	–	–	–	–	–
	2016	–	–	175,000	–	–	–	–	–	–	–
R Holliday–Smith Non–executive director	2017	–	–	110,000	–	–	–	–	–	–	–
	2016	–	–	110,000	–	–	–	–	–	–	–
T Moufarrige (ii) Non–executive director	2017	–	–	183,991	–	–	–	–	–	–	–
	2016	–	–	100,000	–	–	–	–	–	–	–
M Vaile Non–executive director	2017	–	–	100,000	–	–	–	–	–	–	–
	2016	–	–	100,000	–	–	–	–	–	–	–
Aggregate	2017	–	–	568,991	–	–	–	–	–	–	–
	2016	–	–	485,000	–	–	–	–	–	–	–

Notes:

i Directors' and officers' indemnity insurance has not been included in the above figures since it is impractical to determine an appropriate allocation basis.

Ii An entity associated with T Moufarrige received special exertion consultancy fees for services performed, as detailed on page 50.

KEY MANAGEMENT PERSONNEL REMUNERATION

NAME AND TITLE	NOTES	YEAR	SHORT TERM EMPLOYEE BENEFITS: SALARY AND FEES $	SHORT TERM EMPLOYEE BENEFITS: CASH PROFIT-SHARING AND BONUSES $	SHORT TERM EMPLOYEE BENEFITS: NON-MONETARY BENEFITS $	SHORT TERM EMPLOYEE BENEFITS: OTHER SHORT TERM BENEFITS $	POST-EMPLOYMENT BENEFITS: SUPER BENEFITS $	POST-EMPLOYMENT BENEFITS: OTHER POST-EMPLOYMENT BENEFITS $	SHARE BASED PAYMENTS: EQUITY OPTIONS & SHARES $	TERMINATION BENEFITS $	TOTAL PAYMENTS AND BENEFITS $	SHORT TERM INCENTIVE GRANTS: STI PAID IN CASH %	STI ACCRUED AND NOT YET DUE %	STI FORFEITED %	MAXIMUM FUTURE VALUE OF VESTED STI $	LONG TERM INCENTIVE GRANTS: LTI PAID IN CASH %	LTI ACCRUED AND NOT YET DUE %	LTI FORFEITED %
A G Moufarrige Chief Executive Officer	(iv)	2017	439,276	–	88,692	–	28,500	–	–	–	556,468	–	–	–	–	–	–	–
		2016	457,418	–	74,592	–	28,500	–	–	–	560,510	–	–	–	–	–	–	–
M Moufarrige Chief Operating Officer		2017	670,000	–	14,732	–	63,650	–	31,056	–	779,438	–	–	100%	–	–	–	–
		2016	600,000	110,000	17,883	–	57,000	–	7,828	–	792,711	100%	–	–	–	–	–	–
J Goodwyn VP/ GM USA	(v)	2017	201,833	–	4,488	–	2,508	–	–	403,666	612,495	–	–	100%	–	–	–	–
		2016	418,126	25,000	4,649	–	5,195	–	–	–	452,970	50.0%	–	50.0%	–	–	–	–
L Gorman GM Australia & NZ		2017	294,427	30,000	–	–	27,971	–	15,528	–	367,926	30.0%	–	70.0%	–	–	–	–
		2016	281,877	80,000	2,938	–	27,312	–	3,914	–	396,041	80.0%	–	20.0%	–	–	–	–
L Lahdo GM Middle East	(vi)	2017	352,883	–	23,658	–	29,480	–	10,870	–	416,891	–	–	100%	–	–	–	–
		2016	365,524	50,000	30,832	–	30,384	–	2,740	–	479,480	50.0%	–	50.0%	–	–	–	–
O Vlietstra GM Japan	(vii)	2017	518,116	100,000	35,781	–	–	–	21,739	–	675,636	100%	–	50.0%	–	–	–	–
		2016	556,552	150,000	37,056	–	–	–	5,479	–	749,087	150%	–	–	–	–	–	–
A Clowes Chief Financial Officer		2017	268,333	20,000	–	–	25,492	–	–	–	313,825	30.8%	–	69.2%	–	–	–	–
	(viii)	2016	61,698	–	–	–	5,861	–	–	–	67,559	–	–	–	–	–	–	–
T Wallace	(ix)	2016	326,749	–	–	–	21,846	–	–	–	348,595	–	–	100%	–	–	–	–
Aggregate		2017	2,744,868	150,000	167,351	–	177,601	–	79,193	403,666	3,722,679	27.3%	–	81.8%	–	–	–	–
		2016	3,067,944	415,000	167,950	–	176,098	–	19,961	–	3,846,953	79.0%	–	30.5%	–	–	–	–

Notes:

i Amounts disclosed as short-term cash profit-sharing and bonuses in the 2017 year represent STI paid in August 2017 based on 2017 financial year global and region targets.

ii Amounts disclosed as short-term cash profit-sharing and bonuses in the 2016 year represent STI paid in August 2016 based on 2016 financial year global and region targets.

iii Amounts disclosed as share based payments relate to Options issued on 2 May 2016. Details are set out on page 51 of this annual report.

iv The salary of A G Moufarrige includes a component paid in Yen. The decrease in the 2017 year reflects the change in foreign currency exchange rate, not a change in salary in base currency terms.

v J Goodwyn ceased employment with Servcorp effective 31 December 2016.

vi The salary of L Lahdo is paid in AED. The decrease in the 2017 year reflects the change in foreign currency exchange rate, not a change in salary in base currency terms.

vii The salary of O Vlietstra is paid in JPY. The decrease in the 2017 year reflects the change in foreign currency exchange rate, not a change in salary in base currency terms.

viii A Clowes commenced employment with Servcorp effective 04 April 2016.

ix T Wallace ceased employment with Servcorp effective 26 February 2016.

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Servcorp Limited
Level 63, MLC Centre
19 Martin Place
Sydney, NSW 2000

23 August 2017

Dear Board Members,

Auditor's Independence Declaration to Servcorp Limited.

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Servcorp Limited.

As lead audit partner for the audit of the financial report of Servcorp Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit

ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Stephen Gustafson
Partner

Chartered Accountants

Financial Report

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Statement of comprehensive income

Servcorp Limited and its controlled entities for the financial year ended 30 June 2017

	NOTE	CONSOLIDATED 2017 $'000	2016 $'000
Revenue	2	316,879	321,966
Other income	2	12,686	6,635
		329,565	328,601
Service expenses		(79,188)	(79,439)
Marketing expenses		(17,669)	(18,721)
Occupancy expenses		(160,048)	(154,579)
Rent - fixed annual impact	2	(1,512)	(1,391)
Administrative expenses		(22,729)	(25,340)
Share of losses of joint venture		(195)	(169)
Borrowing expenses		(31)	(122)
Total expenses		(281,372)	(279,761)
Profit before income tax expense		48,193	48,840
Income tax expense	4	(7,482)	(9,118)
Profit for the year		40,711	39,722
OTHER COMPREHENSIVE INCOME			
Translation of foreign operations (item may be reclassified subsequently to profit or loss)		(11,021)	1,033
Other comprehensive income for the period (net of tax)		(11,021)	1,033
Total comprehensive income for the period		29,690	40,755
EARNINGS PER SHARE			
Basic and diluted earnings per share	6	$0.41	$0.40

The Statement of comprehensive income is to be read in conjunction with the notes to the Consolidated financial report.

Statement of financial position

Servcorp Limited and its controlled entities as at 30 June 2017

	NOTE	CONSOLIDATED 2017 $'000	2016 $'000
CURRENT ASSETS			
Cash and cash equivalents	7	104,376	95,849
Trade and other receivables	8	41,650	40,264
Other financial assets	9	14,942	19,341
Current tax assets	4	625	-
Prepayments and other assets	10	16,435	15,162
Total current assets		178,028	170,616
NON-CURRENT ASSETS			
Other financial assets	9	38,407	39,874
Property, plant and equipment	11	125,800	132,018
Deferred tax assets	4	33,620	35,231
Goodwill	12	14,805	14,805
Total non-current assets		212,632	221,928
Total assets		390,660	392,544
CURRENT LIABILITIES			
Trade and other payables	13	51,551	55,331
Other financial liabilities	14	31,005	33,563
Current tax liabilities	4	3,658	8,001
Provisions	16	6,948	6,664
Total current liabilities		93,162	103,559
NON-CURRENT LIABILITIES			
Trade and other payables	13	27,915	21,715
Other financial liabilities	14	561	4,372
Provisions	16	693	691
Deferred tax liabilities	4	1,154	1,187
Total non-current liabilities		30,323	27,965
Total liabilities		123,485	131,524
Net assets		267,175	261,020
EQUITY			
Contributed equity	17	154,122	154,122
Reserves		(12,354)	(1,422)
Retained earnings		125,407	108,320
Equity attributable to equity holders of the parent		267,175	261,020
Total equity		267,175	261,020

The Statement of financial position is to be read in conjunction with the notes to the Consolidated financial report.

Statement of changes in equity

Servcorp Limited and its controlled entities for the financial year ended 30 June 2017

	ISSUED CAPITAL $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	EMPLOYEE EQUITY SETTLED BENEFITS RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000
Balance at 1 July 2015	154,122	(2,477)	-	90,253	241,898
Profit for the period	-	-	-	39,722	39,722
Translation of foreign operations (net of tax)	-	1,033	-	-	1,033
Total comprehensive gain for the period	-	1,033	-	39,722	40,755
Share based payment	-	-	22	-	22
Payment of dividends	-	-	-	(21,655)	(21,655)
Balance at 30 June 2016	154,122	(1,444)	22	108,320	261,020
Balance at 1 July 2016	154,122	(1,444)	22	108,320	261,020
Profit for the period	-	-	-	40,711	40,711
Translation of foreign operations (net of tax)	-	(11,021)	-	-	(11,021)
Total comprehensive gain for the period	-	(11,021)	-	40,711	29,690
Share based payment	-	-	89	-	89
Payment of dividends	-	-	-	(23,624)	(23,624)
Balance at 30 June 2017	154,122	(12,465)	111	125,407	267,175

The Statement of changes in equity is to be read in conjunction with the notes to the Consolidated financial report.

Statement of cash flows

Servcorp Limited and its controlled entities for the financial year ended 30 June 2017

	NOTE	CONSOLIDATED 2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		337,496	346,061
Payments to suppliers and employees		(275,225)	(276,962)
Franchise fees received		601	619
Income tax paid		(11,636)	(12,289)
Interest and other items of similar nature received		3,149	3,268
Interest and other costs of finance paid		(31)	(122)
Net operating cash flows	22(b)	54,354	60,575
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for variable rate bonds		(4,726)	(2,420)
Payments for property, plant and equipment		(28,105)	(27,559)
Payments for lease deposits		(434)	(7,367)
Proceeds from sale of property, plant and equipment		46	128
Proceeds from sale of variable rate bonds		10,076	-
Proceeds from refund of lease deposits		187	155
Net investing cash flows		(22,956)	(37,063)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(23,624)	(21,655)
Borrowings		(557)	(6,687)
Landlord capital incentives received		3,699	618
Net financing cash flows		(20,482)	(27,724)
Net (decrease)/increase in cash and cash equivalents		10,916	(4,212)
Cash and cash equivalents at the beginning of the financial year		95,849	97,837
Effects of exchange rate changes on cash transactions in foreign currencies		(2,389)	2,224
Cash and cash equivalents at the end of the financial year	22(a)	104,376	95,849

The Statement of cash flows is to be read in conjunction with the notes to the Consolidated financial report.

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1. GENERAL

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report comprises the Consolidated financial statements of Servcorp Limited ('the Company') and its controlled entities ('Consolidated Entity'). For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 23 August 2017.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for financial instruments that are measured at their fair value as explained below. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, amounts in the Financial Repot and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Adoption of new and revised Accounting Standards

In the current year, the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new accounting standards did not have any material impact.

At the date of authorisation of the financial report, the following Standards and Interpretations relevant to the Consolidated Entity were on issue but not yet effective:

- AASB 9 'Financial Instruments'. Effective for annual reporting periods beginning 1 January 2018. No material impact is expected on the financial statements.
- AASB 15 'Revenue from Contracts with Customers'. Effective for annual reporting periods beginning 1 January 2018. No impact is expected on the financial statements.
- AASB 16 'Leases'. Effective for annual reporting periods beginning 1 January 2019. The extent of the impact has not been determined. The adoption of IFRS 16 will result in the recognition of a significant right-of-use asset together with corresponding lease liabilities. The extent of the impact has not been determined. The Consolidated Entity has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Critical accounting estimates and judgements

In the application of the Consolidated Entity's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Consolidated Entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Further information on goodwill impairment is set out in Note 12.

Useful lives of property, plant and equipment

As described in Note 1m, the Consolidated Entity reviews the estimated useful lives of property, plant and equipment at each reporting period.

Make good provisions

At each reporting date, management reviews leases that are expected to terminate to determine the present obligation in relation to floor closure costs including make good.

Tax losses

Deferred tax assets for the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised. This is assessed at each reporting date. Further information is set out in Note 4.

The Directors are currently in the process of assessing the future period impact of AASB 15 'Revenue from Contracts with Customers' and AASB 16 'Leases' on the financial statements. The remaining Standards and Interpretations on issue not yet effective may have a material impact on the financial statements of the entity.

Significant accounting policies

a. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has the power, rights to variable returns and the ability to use its power to affect the amount of the returns. Consistent accounting policies are employed in the preparation and presentation of the Consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess in the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the difference is credited to the Statement of comprehensive income in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control, and until such time as the Company ceases to control an entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Consolidated Entity are eliminated in full.

1. GENERAL (CONTINUED)

b. Goodwill

Goodwill arising on acquisition is recognised as an asset and initially recognised at cost, representing the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised, but is tested for impairment at each reporting date and whenever there is an indication that goodwill may be impaired. Any impairment of goodwill is recognised immediately in the Statement of comprehensive income and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Consolidated Entity's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs) and then to the other assets of the CGUs pro-rata on the basis of the carrying amount of each asset in the CGU (or group of CGUs). An impairment loss for goodwill is immediately recognised in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

c. Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Consolidated Entity reviews the carrying values of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at each reporting date and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value by using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only 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 the impairment loss is recognised in the Statement of comprehensive income immediately.

d. Revenue recognition

Services revenue

Services revenue comprises revenue earned net of the amount of goods and services tax from the provision of services to entities outside the Consolidated Entity. Rental, telephone and services revenue are typically invoiced in advance and are recognised in the period in which the services are provided.

e. Other income / expense

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Disposal of assets

The profit and loss on disposal of assets is brought to account when the significant risks and rewards of ownership are passed to a party external to the Consolidated Entity.

f. Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Foreign currency monetary items at reporting date are translated at the exchange rates existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences are recognised in profit and loss in the period in which they arise except exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation. Such exchange differences are recognised in the foreign currency translation reserve and in the profit and loss on disposal of the net investment.

Translation of controlled foreign entities

The individual financial statements of each controlled foreign entity are presented in its functional currency, being the currency of the primary economic environment in which the entity operates. For the purpose of the Consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Company and the presentation currency for the Consolidated financial statements.

The assets and liabilities of overseas operations are translated at the rates of exchange ruling at the balance sheet date.

Income and expense items are translated at the average exchange rate for the period. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

The balance of the foreign currency translation reserve relating to an overseas operation that is disposed of is recognised in the profit and loss in the period of disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

1. GENERAL (CONTINUED)

g. Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, and amortisation of ancillary costs using the effective interest rate method in connection with the arrangement of borrowings. Borrowing costs are expensed to the Statement of comprehensive income as incurred.

h. Taxation

Current tax

Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or loss for the period. Income tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the 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 comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arises from the initial recognition of assets and liabilities, other than as a result of a business combination, which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches and associates except where the Consolidated Entity 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 arising from deductible temporary differences associated with these investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the assets and liabilities giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantially enacted by the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised in equity.

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. Servcorp Limited is the head entity in the tax consolidated group. Tax expense/ income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate tax payer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company. Under this method, each entity is subject to tax as part of the tax consolidated group.

Due to the existence of a tax funding arrangement between entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company, and each member of the tax consolidated group in relation to the tax contribution amounts paid or payable between the parent entity, and the other members of the tax consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the Statement of financial position.

Cash flows are included in the Statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

i. Receivables

Trade debtors to be settled within 30 days are carried at amounts due. The collectability of debts is assessed at balance sheet date and a specific allowance is made for any doubtful amounts.

1. GENERAL (CONTINUED)

j. Derivative financial instruments
The Consolidated Entity enters into derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates. Further details of derivative financial instruments are disclosed in Note 18 to the Consolidated financial report.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised immediately in the profit or loss.

k. Share based payments
The Board may grant options to eligible executives in accordance with the Servcorp Executive Share Option Scheme. These equity-settled-share-based payments are non-market based and have earnings per share performance hurdles for the vesting of options.

Equity-settled share-based payments with employees are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a Binomial Tree model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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

At each reporting date, the Company revises its estimate of the number of equity instruments that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the equity-settled employee benefits reserve.

l. Financial assets
Subsequent to initial recognition, the Company's investments in subsidiaries are measured at cost.

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 18e.

Other financial assets are classified into the following specified categories:

Loans and receivables
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'Loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flow of the investment have been impacted.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that will exactly discount estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period.

m. Property, plant and equipment
Acquisition
Items of property, plant and equipment acquired are capitalised when it is probable that the future economic benefits associated with the item will flow to the entity and the cost can be measured reliably. Where these costs represent separate components of a complex asset, they are accounted for as separate assets and are separately depreciated over their useful lives. Rent incurred in bringing floors to a state of operational readiness is capitalised to leasehold improvements and depreciated over the useful life of the asset.

Costs incurred on property, plant and equipment, which does not meet the criteria for capitalisation are expensed as incurred.

Property, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation, less impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation
Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated using the straight line method over their estimated useful lives. Leasehold improvements are depreciated over the useful life of the asset using the straight line method.

The estimated useful lives used for each class of asset are as follows:

Buildings	40 years
Leasehold improvements	Useful life of the asset
Office furniture and fittings	7.7 years
Office equipment	3-4 years
Software	3.7 years
Motor vehicles	6.7 years

Depreciation rates and methods are reviewed annually and, where changed, are accounted for as a change in accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method.

Assets are depreciated from the date of acquisition or from the time an asset is completed and ready for use.

n. Leased assets
Finance leases
Leased plant and equipment
Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

1. GENERAL (CONTINUED)

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the Statement of comprehensive income.

Operating leases
Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives
Floor rental is expensed on a straight line basis over the period of the lease term in accordance with lease agreements entered into with landlords. Where a rent free period or other lease incentives exist under the terms of a lease agreement, the aggregate rent payable over the lease term is calculated and a charge is made to the profit and loss on a straight line basis over the term of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

o. Payables
Liabilities are recognised for amounts payable in the future for goods or services received, whether or not billed to the Consolidated Entity. Trade accounts payable are normally settled within 60 days.

p. Borrowing costs
Borrowings are recorded initially at fair value, net of transaction costs. Any difference between the initial recognised amount and the redemption value is recognised in the Statement of comprehensive income over the life of the borrowings using the effective interest rate method.

q. Employee benefits
Wages, salaries and annual leave
The provision for employee benefits in respect of wages, salaries and annual leave represents the amount which the Consolidated Entity has a present obligation to pay resulting from employees' services provided up to the reporting date. Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Long service leave
The provision for employee benefits in respect of long service leave represents the present value of the estimated future cash outflows to be made by the Consolidated Entity resulting from employees' services provided up to the reporting date.

Provisions for employee benefits which are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at the reporting date which most closely match the terms of maturity of the related liabilities.

In determining the provision for employee benefits, consideration has been given to future increases in wage and salary rates, and the Consolidated Entity's experience with staff departures. Related on-costs have also been included in the liability.

Contributions to Australian superannuation funds
The Company and other Australian controlled entities contribute to defined contribution superannuation plans. Contributions are charged to the Statement of comprehensive income as they are incurred. Further information is set out in Note 19.

r. Earnings per share (EPS)
Basic earnings per share
Basic EPS is calculated by dividing the net profit attributable to members of the Consolidated Entity for the reporting period by the weighted average number of ordinary shares of the Company.

Diluted earnings per share
Diluted EPS is calculated by adjusting the basic EPS earnings by the effect of conversion to ordinary shares of the associated dilutive potential ordinary shares. The notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted are not included.

The diluted EPS weighted average number of shares includes the number of shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares.

The identification of dilutive potential ordinary shares is based on net profit or loss from continuing ordinary operations and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary shares.

s. 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.

t. Cash and cash equivalents
Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of six months or less.

u. Investment in joint venture
A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture is incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated Statement of financial position at cost and adjusted thereafter to recognise the Consolidated Entity's share of profit or loss and other comprehensive income of the joint venture.

An investment in a joint venture is accounted for using the equity method of accounting from the date on which the investee becomes a joint venture.

The requirements of AASB139 'Financial Instruments: Recognition and Measurement' are applied to determine whether it is necessary to recognise any impairment loss with respect to the Consolidated Entity's investment in a joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with AASB136 'Impairment of Assets' as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB136 to the extent that the recoverable amount of the investment substantially increases.

2. PROFIT FROM OPERATIONS

	CONSOLIDATED	
	2017 $'000	2016 $'000
A. REVENUE		
Revenue from continuing operations consisted of the following:		
Revenue from the rendering of services	316,277	321,347
Franchise fee income	602	619
	316,879	321,966
B. OTHER INCOME		
Interest income - bank deposits	2,942	3,367
Net foreign exchange gain (realised and unrealised)	6,067	2,058
Gain on asset disposal	3,163	-
Other income	514	1,210
Total other income	12,686	6,635
C. EXPENSES		
Rent - fixed annual impact (i)	1,512	1,391
D. PROFIT BEFORE INCOME TAX		
Profit before income tax was arrived at after charging/ (crediting) the following from/ (to) continuing operations:		
Interest on bank overdrafts and loans	31	122
Depreciation of leasehold improvements	16,691	16,583
Depreciation of property, plant and equipment	6,184	6,654
Gain on disposal of property, plant and equipment	2,205	23
Gain on disposal of financial assets	958	-
Change in fair value of financial assets classified as fair value through the profit and loss	4,180	(3,673)
Bad debts written off	1,580	2,138
Operating lease payments	134,804	129,924

Notes:

i The rent fixed annual impact represents the straight-lining of fixed annual increases ranging between 3.0% and 4.25%(2016: 3.0% and 4.25% per annum) in accordance with AASB117.

3. DISTRIBUTIONS PAID AND PROPOSED

Dividends proposed (unrecognised) or paid (recognised) by the Company are:

		CENTS PER SHARE	TOTAL AMOUNT $'000	DATE OF PAYMENT	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
RECOGNISED AMOUNTS						
2016						
Final	Fully paid ordinary shares	11.00	10,828	24 Sept 2015	30%	40%
Interim	Fully paid ordinary shares	11.00	10,827	23 Mar 2016	30%	50%
2017						
Final	Fully paid ordinary shares	11.00	10,828	6 Oct 2016	30%	50%
Interim	Fully paid ordinary shares	13.00	12,796	5 Apr 2017	30%	50%

UNRECOGNISED AMOUNTS

Since the end of the financial year, the directors have declared the following dividend:

Final	Fully paid ordinary shares	13.00	12,796	5 Oct 2017	30%	50%

In determining the level of future dividends, the Directors will seek to balance growth objectives and rewarding shareholders with income. This policy is subject to the cash flow requirements of the Company and its investment in new opportunities aimed at growing earnings. The directors cannot give any assurances concerning the extent of future dividends, or the franking of such dividends, as they are dependent on future profits, the financial and taxation position of the Company and the impact of taxation legislation.

	2017 $'000	2016 $'000
DIVIDEND FRANKING ACCOUNT		
30% franking credit available	430	2,215
Impact on franking account balance of dividends not recognised	2,742	2,320

The balance of the franking account has been adjusted for franking credits that will arise from the payment of income tax provided for in the financial statements, and for franking debits that will arise from the payment of dividends recognised as a liability at reporting date.

4. INCOME TAXES

	CONSOLIDATED 2017 $'000	2016 $'000
A. INCOME TAX RECOGNISED IN THE INCOME STATEMENT		
Tax expense comprises:		
Current tax expense	10,351	12,883
(Over)/ under provision in prior years - current tax	(4,414)	459
Under/ (over) provision in prior years - deferred tax	653	(1,085)
Deferred tax income relating to the origination and reversal of temporary differences and previously unrecognised tax losses	892	(3,139)
Income tax expense	7,482	9,118
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit before income tax expense	48,193	48,840
Income tax expense calculated at 30%	14,458	14,652
Deductible local taxes	(581)	(256)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,920)	(3,842)
Other deductible items	194	(560)
Tax losses of controlled entities recovered	(1,200)	(286)
Income tax over provision in prior years	(3,761)	(626)
Unused tax losses and tax offsets not recognised as deferred tax assets	1,292	36
Income tax expense	7,482	9,118

The tax rate used in the above reconciliation is the Australian corporate tax rate of 30% (2015: 30%).

	2017 $'000	2016 $'000
B. CURRENT TAX ASSETS AND LIABILITIES		
Current tax assets		
Tax refunds receivable	625	-
Current tax payables		
Income tax attributable to:		
Parent entity	(1,313)	1,473
Subsidiaries	4,971	6,528
	3,658	8,001

4. INCOME TAXES (CONTINUED)

	CONSOLIDATED 2017 $'000	2016 $'000
C. DEFERRED TAX BALANCES		
Deferred tax assets comprises:		
Tax losses - revenue (i)	13,859	13,422
Temporary differences	19,761	21,809
	33,620	35,231
Deferred tax liabilities comprises:		
Temporary differences	(1,154)	(1,187)
Net deferred tax assets	32,466	34,044

Notes:
i $9,100,000 relates to USA carry forward deferred tax losses (2016: $9,300,000).

	2017 $'000	2016 $'000
The gross movement of the deferred tax accounts are as follows:		
Balance at the beginning of the financial year	34,044	28,796
Movements in foreign exchange rates	(853)	987
Statement of comprehensive income (credit)/ charge	(725)	4,261
Balance at the end of the financial year	32,466	34,044
Deferred tax assets		
Movements in temporary differences:		
Accruals not currently deductible	485	757
Doubtful debts	(41)	(45)
Depreciable and amortisable assets	(976)	844
Tax losses	437	7
Foreign exchange	(1,932)	734
Deferred rent incentive	548	1,167
Other	772	663
Deferred tax assets	(707)	4,127
Balance at the beginning of the financial year	35,231	30,149
Movements in foreign exchange rates	(904)	955
Statement of comprehensive income (credit)/ charge	(707)	4,127
Balance at the end of the financial year	33,620	35,231

4. INCOME TAXES (CONTINUED)

	CONSOLIDATED	
	2017 $'000	2016 $'000
C. DEFERRED TAX BALANCES (CONTINUED)		
Deferred tax liabilities		
Movements in temporary differences:		
Depreciable and amortisable assets	(14)	(34)
Accruals and provisions not currently deductible	(13)	1
Other	(4)	(134)
Deferred tax liabilities	(31)	(167)
Balance at the beginning of the financial year	1,187	1,353
Movements in foreign exchange rates	-	1
Statement of comprehensive income (credit)	(33)	(167)
	1,154	1,187
D. UNRECOGNISED DEFERRED TAX BALANCES		
The following deferred tax assets have not been brought to account as assets:		
Temporary differences	15	15
Tax losses - capital	2,086	2,086
Tax losses - revenue	2,074	1,334
	4,175	3,435

5. SEGMENT INFORMATION

Servcorp Serviced Offices are fully-managed, fully-furnished CBD office suites in prime locations, with a receptionist, meeting rooms, IT infrastructure and support services available. Servcorp Virtual Office provides the services, facilities and IT to businesses without the cost of a physical office.

The Group's information reported to the Board of Directors is based on each segment manager directly responsible for the functioning of the operating segment. The segment manager has regular contact with members of the Board of Directors to discuss operating activities, forecasts and financial results. Segment managers are also responsible for disseminating management planning materials as directed by the Chief Operating Decision Maker. The segment manager motivates and rewards team members who meet or exceed sales targets. Four reportable operating segments have been identified: Australia, New Zealand and Southeast Asia (ANZ/SEA); USA; Europe and Middle East (EME); North Asia and other which reflect the segment requirements under AASB 8.

The Group's reportable operating segments under AASB 8 are presented below. The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under audit.

		SEGMENT REVENUE		SEGMENT PROFIT/ (LOSS)	
	NOTE	2017 $'000	2016 $'000	2017 $'000	2016 $'000
CONTINUING OPERATIONS					
Australia, New Zealand and Southeast Asia (i)		89,565	87,087	6,365	12,185
USA (i)		34,419	35,061	(5,843)	(3,808)
Europe and Middle East		84,444	93,411	14,856	18,466
North Asia		107,089	104,959	21,384	20,842
Other		760	829	26	191
		316,277	321,347	36,788	47,876
Finance costs				(31)	(122)
Interest revenue		2,942	3,367	2,942	3,367
Foreign exchange gains		6,067	2,058	6,067	2,058
Centralised unrecovered head office overheads				918	(3,026)
Franchise fee income		602	619	602	619
Rent - fixed rent increase (ii)	2			(1,512)	(1,391)
Share of losses of joint venture				(195)	(169)
Gain on asset disposal		3,163	-	3,163	-
Unallocated		514	1,210	(549)	(372)
Profit before tax				48,193	48,840
Income tax expense				(7,482)	(9,118)
Consolidated segment revenue and profit for the period		329,565	328,601	40,711	39,722

The revenue reported above represents revenue generated from external customers. Intersegment sales were eliminated in full. For the 12 months ended 30 June 2017, the Consolidated Entity's Virtual Office revenue and Serviced Office revenue were $83,152,000 and $233,125,000 repectively (2016: $82,336,000 and $239,011,000, respectively).

Note:
i During December 2016 $2.5M of unplanned one off expenses were incurred related to the restructure of the USA operations and the closure of one location in Australia.
ii Refer to Note 2(c).

6. EARNINGS PER SHARE

	CONSOLIDATED 2017 $'000	2016 $'000
EARNINGS RECONCILIATION		
Net profit	40,711	39,722
Earnings used in the calculation of basic and diluted EPS	40,711	39,722

	NO.	NO.
Weighted average number of ordinary shares used in the calculation of basic EPS	98,432,275	98,432,275
Weighted average number of ordinary shares used in the calculation of diluted EPS	98,432,275	98,432,275
Basic earnings per share	$0.41	$0.40
Diluted earnings per share	$0.41	$0.40

7. CASH AND CASH EQUIVALENTS

	CONSOLIDATED 2017 $'000	2016 $'000
Cash (i)	37,679	20,935
Bank short term deposits (i), (ii)	66,697	74,914
	104,376	95,849

Notes:

i Servcorp's unencumbered cash and investment balance is $107,928,000 as at 30 June 2017 (2016: $99,680,000).

ii Bank short term deposits mature within an average of 106 days (2016: 135 days). These deposits and the interest earning portion of the cash balance earn interest at a weighted average rate of 2.55% (2016: 2.83%).

8. TRADE AND OTHER RECEIVABLES

CURRENT		
At amortised cost		
Trade receivables (i)	31,207	34,337
Less: allowance for doubtful debts	(1,139)	(825)
Other debtors	11,582	6,752
	41,650	40,264

Notes:

i The average credit period allowed on rendering of services is 7 days. An allowance has been made for estimated unrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience. The Consolidated Entity has fully reviewed all receivables over 90 days. Receivables are assessed for impairment at each reporting date and as at 30 June 2017 the Directors believe no further provisions are required.

9. OTHER FINANCIAL ASSETS

	CONSOLIDATED 2017 $'000	2016 $'000
CURRENT		
At fair value through profit or loss		
Investment in bank hybrid variable rate securities (i)	14,378	18,737
At amortised cost		
Lease deposits	564	604
	14,942	19,341
NON-CURRENT		
At fair value through profit or loss		
Forward foreign currency exchange contracts	454	-
At amortised cost		
Lease deposits	37,188	39,799
Other	765	75
	38,407	39,874

Notes:

i Australia has $9,894,000 in securities which is encumbered (2016: $13,989,000).

10. OTHER ASSETS

CURRENT		
Prepayments	14,499	12,479
Other	1,936	2,683
	16,435	15,162

11. PROPERTY, PLANT AND EQUIPMENT

									CONSOLIDATED	
	LAND AND BUILDINGS AT COST	LEASE-HOLD IMPROVE-MENTS OWNED AT COST	LEASE-HOLD IMPROVE-MENTS AT COST	OFFICE FURNITURE & FITTINGS OWNED AT COST	OFFICE FURNITURE & FITTINGS LEASED AT COST	OFFICE EQUIP-MENT & SOFT-WARE OWNED AT COST	OFFICE EQUIP-MENT LEASED AT COST	MOTOR VEHICLES OWNED AT COST	WIP AT COST	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
GROSS CARRYING AMOUNTS										
Balance at 30 June 2016	11,394	208,371	1,260	31,535	146	44,528	126	783	1,287	299,430
Additions	2,455	18,960	-	2,447	-	4,104	-	139	-	28,105
Disposals	(4,338)	(2,938)	-	(621)	-	(1,803)	-	(100)	-	(9,800)
Transfers (to)/ from other class of asset	(911)	899	-	163	-	225	-	-	(1,287)	(911)
Effect of foreign currency exchange differences	(862)	(9,847)	(145)	(1,790)	(17)	(1,371)	(14)	(25)	-	(14,071)
Balance at 30 June 2017	7,738	215,445	1,115	31,734	129	45,683	112	797	-	302,753
ACCUMULATED DEPRECIATION										
Balance at 30 June 2016	1,370	106,678	1,214	19,323	146	37,905	126	650	-	167,412
Depreciation expense	140	16,691	-	2,776	-	3,215	-	53	-	22,875
Disposals	(906)	(1,893)	-	(548)	-	(1,542)	-	(100)	-	(4,989)
Transfers (to)/ from other class of asset	(172)	-	-	16	-	(16)	-	-	-	(172)
Effect of foreign currency exchange differences	(59)	(5,573)	(145)	(1,014)	(17)	(1,335)	(14)	(16)	-	(8,173)
Balance at 30 June 2017	373	115,903	1,069	20,553	129	38,227	112	587	-	176,953
NET BOOK VALUE										
Balance at 30 June 2017	7,365	99,542	46	11,181	-	7,456	-	210	-	125,800
Balance at 30 June 2016	10,024	101,693	46	12,212	–	6,623	–	133	1,287	132,018

This note is to be read in conjunction with Note 1 Significant accounting policies "Useful lives of property, plant and equipment".

12. GOODWILL

ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

The following twenty two countries are cash-generating units:

Japan, Australia, New Zealand, China, Hong Kong, Malaysia, Singapore, Thailand, Belgium, United Arab Emirates, Bahrain, Qatar, Saudi Arabia, Philippines, Lebanon, Turkey, France, United States of America, Kuwait, United Kingdom, Iran and Indonesia.

Goodwill was allocated to the countries in which goodwill arose.

The carrying amounts of goodwill relating to each cash-generating unit as at 30 June 2017 was as follows:

	CONSOLIDATED	
	2017 $'000	2016 $'000
Japan	9,161	9,161
France	1,030	1,030
Australia	2,636	2,636
New Zealand	785	785
Singapore	706	706
Thailand	326	326
China	161	161
	14,805	14,805

The recoverable amount of goodwill relating to each cash-generating unit was determined based on value in use calculations, which use cash flow projections, covering a five year period and terminal value. For the year ended 30 June 2017, the post tax discount rate applied to the above countries, inclusive of country risk premium, was as follows: Japan 11.2%, France 10.9%, Australia 10.2%, New Zealand 10.2%, Singapore 10.2%, Thailand 12.5% and China 11.1% (2016: Japan 13.8%, France 13.7%, Australia 12.9%, New Zealand 12.9%, Singapore 12.9% Thailand 15.4% and China 13.9%).

13. TRADE AND OTHER PAYABLES

	2017	2016
CURRENT		
At amortised cost		
Trade creditors	6,463	7,326
Deferred income	21,468	23,023
Deferred lease incentive	9,806	11,791
Other creditors and accruals	13,814	13,191
	51,551	55,331
NON-CURRENT		
At amortised cost		
Deferred lease incentive	27,915	21,715
	27,915	21,715

14. OTHER FINANCIAL LIABILITIES

	CONSOLIDATED	
	2017 $'000	2016 $'000
CURRENT		
At fair value through profit or loss		
Forward foreign currency exchange contracts	-	299
At amortised cost		
Security deposits	30,446	32,631
External borrowings (i)	559	633
	31,005	33,563
NON-CURRENT		
At fair value through profit or loss		
Forward foreign currency exchange contracts	-	3,427
At amortised cost		
External borrowings (i)	561	945
	561	4,372

Notes:

i On 21 November 2013 Japan borrowed JPY240,000,000 at 2.42% p.a. fixed for 5 years.

15. FINANCING ARRANGEMENTS

	2017 $'000	2016 $'000
The Consolidated Entity has access to the following lines of credit:		
TOTAL FACILITIES AVAILABLE		
Bank guarantees (i)	38,974	38,983
Bank overdrafts and loans (ii)	4,605	4,971
Bill acceptance / payroll / other facilities (iii)	4,150	4,150
	47,729	48,104
FACILITIES UTILISED AT BALANCE SHEET DATE		
Bank guarantees (i)	30,533	32,053
Bank overdrafts and loans (ii)	836	1,417
	31,369	33,470
FACILITIES NOT UTILISED AT BALANCE SHEET DATE		
Bank guarantees (i)	8,441	6,930
Bank overdrafts and loans (ii)	3,769	3,554
Bill acceptance / payroll / other facilities (iii)	4,150	4,150
	16,360	14,634

The Consolidated Entity has access to financing facilities at reporting date as indicated above. The Consolidated Entity expects to meet its other obligations from operating cash flows and proceeds.

Notes:

i Bank guarantees have been issued to secure rental bonds over premises. A guarantee has also been established to secure an overdraft limit in the form of a term deposit.

ii Bank overdraft limits have been established to fund working capital as required. All bank overdraft facilities are unsecured and payable at call, including any credit card facility utilised.

iii Bill acceptance, payroll and other facilities have been established to facilitate the encashment of cheques, and to accommodate direct entry payroll and direct entry supplier payments.

16. PROVISIONS

	CONSOLIDATED	
	2017 $'000	2016 $'000
CURRENT		
Employee benefits (i)	6,746	6,392
Other	202	272
	6,948	6,664
NON-CURRENT		
Employee benefits	693	691
	693	691

Notes:

i The current provision for employee benefits includes $5,789,087 of annual leave and vested long service leave entitlements accrued (2016: $5,643,514).

17. CONTRIBUTED EQUITY

	2017	2016
Fully paid ordinary shares $98,432,275 (2016: 98,432,275)	154,122	154,122
MOVEMENTS IN ISSUED CAPITAL		
Balance at the beginning of the financial year	154,122	154,122
Balance at the end of the financial year	154,122	154,122

18. FINANCIAL INSTRUMENTS

The Company's Audit and Risk Committee oversees the establishment of the capital and financial risk management system which identifies, evaluates, classifies, monitors, qualifies and reports significant risks to the Board of Directors. All controlled entities in the Consolidated Entity apply this risk management system to manage their own risks.

a. Financial risk management objectives

The financial risks that result from the Consolidated Entity's activities are credit risk and market risk (interest rate risk and foreign exchange risk).

The Consolidated Entity's corporate treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the Consolidated Entity.

The Consolidated Entity does not enter into or trade financial instruments for speculative purposes. The Consolidated Entity does not apply hedge accounting. The use of financial derivatives is governed by the Consolidated Entity's policies approved by the Board of Directors.

The Consolidated Entity's corporate treasury function reports to the Company's Audit and Risk Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

b. Capital management

The Company's objective when managing capital is to ensure that entities within the Consolidated Entity will be able to continue as a going concern while maximising the return to stakeholders.

The Company's overall strategy remains unchanged from the prior period. The capital structure of the Consolidated Entity consists of equity attributable to equity holders of the parent, company issued capital, reserves and retained earnings.

The Consolidated Entity operates globally, primarily through subsidiary companies established in the markets in which the consolidated Entity operates. Operating cash flows are used to maintain and expand the Consolidated Entity, as well as to make routine outflows of tax and dividend payments.

18. FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk

The Consolidated Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The consolidated Entity enters into forward foreign currency exchange contracts to economically hedge anticipated transactions.

i. Foreign exchange risk

The Consolidated Entity operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

The Consolidated Entity's foreign exchange risk arises primarily from:

- risk of fluctuations in foreign exchange rates to the Australian dollar (the reporting currency);
- firm commitments of receipts and payments settled in foreign currencies or with prices dependent on foreign currencies;
- investments in foreign operations; and
- loans and trading accounts to foreign operations.

Foreign currency assets and liabilities

For accounting purposes, net foreign operations are revalued at the end of each reporting period with the movement reflected as a movement in the foreign currency translation reserve. Borrowings and forward exchange contracts not forming part of the net investment in foreign operations are revalued at the end of each reporting period with the fair value movement reflected in the Statement of comprehensive income as exchange gains or losses.

Foreign currency sensitivity analysis

The following table summarises the material sensitivity of financial instruments held at balance date to movements in the exchange rate of the Australian dollar to foreign exchange rates, with all other variables held constant. The sensitivity is based on reasonably possible changes, over a financial year, using the observed range of actual historical rates for the preceding five year period.

	IMPACT ON PROFIT CONSOLIDATED		IMPACT ON EQUITY CONSOLIDATED	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Pre tax gain / (loss)				
AUD/ USD (i) +6%(2016: +7%)	(1,408)	(949)	952	1,062
AUD/ USD (i) -6% (2016: -7%)	1,627	1,004	(1,080)	(1,225)
AUD/ JPY +9% (2016: +10%)	2,644	5,566	1,474	1,380
AUD/ JPY -9% (2016: -10%)	(2,154)	(3,998)	(1,774)	(1,672)
AUD/ EUR +4% (2016: +5%)	113	147	244	247
AUD/ EUR -4% (2016: -5%)	(122)	(162)	(265)	(273)
AUD/ RMB +7% (2016: +7%)	(244)	(418)	9	9
AUD/ RMB -7% (2016: -7%)	282	485	(10)	(10)
AUD/ SGD +5% (2016: +5%)	(688)	(627)	-	-
AUD/ SGD -5% (2016: -5%)	767	697	-	-

Notes:

i Servcorp is exposed to Dirhams (Dubai), Dinars (Bahrain and Kuwait), Rials (Qatar), Riyals (Saudi Arabia), Pounds (Lebanon) and Hong Kong Dollars (Hong Kong). These currencies are pegged to the USD.

18. FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

i. Foreign exchange risk (continued)

Forward foreign currency exchange contracts

The following table sets out the details of forward foreign currency exchange contracts in place as at 30 June 2017. These are Level 2 fair value measurements derived from inputs as defined in Note 18(e).

	AVERAGE EXCHANGE RATE		FOREIGN CURRENCY		FAIR VALUE	
	2017	**2016**	**2017 MILLION**	**2016 MILLION**	**2017 $'000**	**2016 $'000**
Outstanding contracts						
CONSOLIDATED						
Sell JPY Not later than one year	81.99	83.54	750	1,100	374	(1,445)
Later than one year and not later than five years	77.24	80.13	350	1,500	189	(1,938)
Sell USD Not later than one year	0.8458	0.7914	1	2	(119)	(67)
Later than one year and not later than five years	-	0.8497	-	2	-	(276)
Sell NZD Not later than one year	1.0502	-	1	-	(2)	-
Sell EUR Not later than one year	0.6617	-	0.5	-	12	-

ii. Interest rate risk

Interest rate risk on cash or short term deposits is not considered to be a material risk due to the short term nature of these financial instruments.

The following table summarises the sensitivity of the financial instruments held at balance date, following a movement to interest rates, with all other variables held constant. The sensitivity is based on reasonably possible changes over a financial year, using the observed range of actual historical rates.

	IMPACT ON PROFIT CONSOLIDATED	
	2017 $'000	**2016 $'000**
Pre tax gain/ (loss)		
AUD balances		
125 basis point increase	711	903
125 basis point decrease	(702)	(880)
Other balances		
250 basis point increase	206	96
250 basis point decrease	(147)	(73)

18. FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

iii. Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Consolidated Entity's short, medium and long term funding. The Consolidated Entity manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities.

The following table details the Consolidated Entity's expected maturity for its financial assets. The table below was drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned.

	LESS THAN 1 MONTH $'000	1 TO 3 MONTHS $'000	3 MONTHS TO 1 YEAR $'000	1 TO 5 YEARS $'000	5 + YEARS $'000	TOTAL $'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
CONSOLIDATED							
2017							
NON-INTEREST BEARING							
Receivables	41,650	-	-	-	-	41,650	
Lease deposits	1,711	1,732	6,676	19,133	4,358	33,610	
Forward foreign currency exchange contracts	1,232	1,658	9,251	4,535	-	16,676	
INTEREST BEARING							
Cash and cash equivalents	37,679	-	-	-	-	37,679	2.22%
Bank short term deposits	26,222	28,039	16,985	-	-	71,246	2.55%
Variable rate securities	14,378	-	-	-	-	14,378	5.46%
	122,872	31,429	32,912	23,668	4,358	215,239	
2016							
NON-INTEREST BEARING							
Receivables	40,264	–	–	–	–	40,264	
Lease deposits	154	3,453	7,231	21,074	4,110	36,022	
Forward foreign currency exchange contracts	–	588	15,435	20,488	–	36,511	
INTEREST BEARING							
Cash and cash equivalents	20,935	–	–	–	–	20,935	2.61%
Bank short term deposits	17,805	17,999	41,236	–	–	77,040	2.83%
Variable rate securities	18,737	–	–	–	–	18,737	5.40%
	97,895	22,040	63,902	41,562	4,110	229,509	

18. FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

iii. Liquidity risk (continued)

The following table details the Consolidated Entity's remaining contractual maturity for its financial liabilities. The table is based on the earliest date on which undiscounted cash flows of financial liabilities are contractually to be paid. The table includes both principal and interest cash flows.

	LESS THAN 1 MONTH $'000	1 TO 3 MONTHS $'000	3 MONTHS TO 1 YEAR $'000	1 TO 5 YEARS $'000	5+ YEARS $'000	TOTAL $'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
CONSOLIDATED							
2017							
NON-INTEREST BEARING							
Payables	6,463	14,770	-	-	-	21,233	
Security deposits	-	-	30,446	-	-	30,446	
Forward foreign currency exchange contracts	1,220	1,777	8,701	4,060	-	15,758	
INTEREST BEARING							
Bank loans (i)	6	151	468	305	-	930	
	7,689	16,698	39,615	4,365	-	68,367	
2016							
NON-INTEREST BEARING							
Payables	7,326	13,945	–	–	–	21,271	
Security deposits	–	–	32,631	–	–	32,631	
Forward foreign currency exchange contracts	–	673	38,275	–	–	38,948	
INTEREST BEARING							
Bank loans (i)	6	170	529	1,051	–	1,756	
	7,332	14,788	71,435	1,051	-	94,606	

Notes:

i Fixed interest rate instruments.

ii Variable interest rate instruments at LIBOR + 2%.

d. Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the consolidated Entity. The Consolidated Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Consolidated Entity does not have any significant credit risk exposure to any single counterparty or any group of any counterparties having similar characteristics. Details of credit enhancements in the form of serviced office security deposits retained from customers are further disclosed in Note 14.

Credit risk on cash and short term fixed deposits is limited because counterparties are banks with high credit ratings assigned by international credit rating agencies. These liquid funds are managed centrally by The Company's senior management on a daily basis.

18. FINANCIAL INSTRUMENTS (CONTINUED)

e. Fair value of financial instruments

The Directors consider that the carrying amount of financial assets and financial liabilities approximate their fair value other than in respect of the Company's investment in subsidiaries.

Financial instruments are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

			CONSOLIDATED
	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000
30 JUNE 2017			
Bank hybrid variable rate securities	14,378	-	-
Forward foreign currency exchange contracts	-	454	-
	14,378	454	-
30 JUNE 2016			
Bank hybrid variable rate securities	18,737	-	-
Forward foreign currency exchange contracts	-	(3,726)	-
	18,737	(3,726)	-

Some of the the Consolidated Entity's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

FINANCIAL ASSETS	FAIR VALUE AS AT 30 JUNE 2017 $'000	FAIR VALUE AS AT 30 JUNE 2016 $'000	FAIR VALUE HIERACHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)
Bank hybrid variable rate securities	14,378	18,737	1	Quoted prices in an active market
Forward foreign currency exchange contracts	454	(3,726)	2	Future cash flows are estimated based on observable forward exchange rates

19. EMPLOYEE BENEFITS

Accumulation funds

Contributions to accumulation funds are expensed when employees have rendered services entitling them to the contributions. The Company's controlled entities are legally obliged to contribute to employee nominated accumulation funds.

Details of contributions to funds during the year ended 30 June 2017 are as follows:

		CONSOLIDATED
	2017 $'000	2016 $'000
Employer contributions	1,849	1,916

As at 30 June 2017, there were no outstanding employer contributions payable to other funds.

20. COMMITMENTS FOR EXPENDITURE

	2017	2016
CAPITAL EXPENDITURE COMMITMENTS - PROPERTY, PLANT AND EQUIPMENT		
Contracted but not provided for and payable:		
Not later than one year	7,176	15,838
Later than one year but not later than five years	-	-
Later than five years	-	-
	7,176	15,838
NON-CANCELLABLE OPERATING LEASE COMMITMENTS		
Future operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	131,942	137,587
Later than one year but not later than five years	303,192	331,456
Later than five years	151,825	178,356
	586,959	647,399

The Consolidated Entity leases property under operating leases expiring from 1 to 15 years. Liabilities in respect of lease incentives are disclosed in Note 13 to the Consolidated financial report.

Operating leases

Leasing arrangements

Operating leases have been entered into to operate serviced office floors. The Consolidated Entity does not have an option to purchase the leased asset at the expiry of the lease period.

21. SUBSIDIARIES

Servcorp has interests in subsidiary companies in the following countries.

COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	NUMBER OF SUBSIDIARIES	
	2017	2016
Australia	47	47
Bahrain	1	1
Belgium	1	1
China and Hong Kong	8	9
France	2	2
Indonesia	1	1
Iran	1	1
Japan	4	4
Kuwait	1	1
Lebanon	1	1
Malaysia	2	2
New Zealand	5	5
Philippines	1	1
Qatar	1	1
Saudi Arabia	1	1
Singapore	9	9
Thailand	3	3
Turkey	1	1
United Arab Emirates	3	3
United Kingdom	3	3
United States of America	17	16

Movements in the number of subsidiaries are due to the formation and deregistration of subsidiary entities.

The following subsidiaries have non-controlling interests that are relevant to the Company:

NAME OF SUBSIDIARY	PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTEREST HELD BY NON-CONTROLLING INTERESTS	
		2017 %	2016 %
Servcorp Aswad Real Estate Company WLL	Kuwait	51	51
Servcorp Qatar LLC	Qatar	51	51
Servcorp LLC	UAE	51	51
Servcorp Administration Services WLL	UAE	51	51

A Company in the Consolidated Entity exercises control over Servcorp Aswad Real Estate Company WLL, Servcorp Qatar LLC, Servcorp LLC and Servcorp Administration Services WLL despite owning 49% of the issued capital. Arrangements are in place that entitle the Company or its controlled entities to all the benefits and risks of ownership notwithstanding that the majority shareholding may be vested in another party.

22. NOTES TO STATEMENT OF CASH FLOWS

	CONSOLIDATED	
	2017 $'000	2016 $'000
A. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
For the purpose of the Statement of cash flows, cash and cash equivalents includes cash on hand and at bank, and short term deposits at call, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the Statement of cash flows are reconciled to the related items in the Statement of financial position as follows:		
Cash at bank	37,679	20,935
Short term deposits	66,697	74,914
Cash and cash equivalents	104,376	95,849
B. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	40,711	39,722
Add/ (less) non-cash items:		
Movements in provisions	(286)	974
Depreciation of non-current assets	22,875	23,237
Share of losses of joint venture	(195)	(169)
(Gain)/ loss on disposal of non-current assets	(2,205)	7
Loss from financial assets	(959)	-
Decrease in current tax liability	4,968	1,370
(Decrease) in deferred tax balances	(1,578)	(5,248)
Unrealised foreign exchange (gain)	(5,646)	(3,271)
(Increase) in deferred lease incentives	(4,217)	(332)
Changes in net assets and liabilities during the financial period:		
Increase/ (decrease) in prepayments	2,020	(1,569)
(Decrease) in trade debtors and other receivables (i)	(4,329)	(1,105)
(Decrease)/ increase in current assets	(788)	3,381
Decrease in deferred income	1,555	1,052
Decrease in client security deposits	2,185	626
Decrease in accounts payable	243	1,900
Net cash provided from operating activities	54,354	60,575

Notes:

i Excludes non-operating receivable of $5,715,000.

23. RELATED PARTY DISCLOSURES

Transactions with the Company and its controlled entities
From time to time Directors of the Company and its controlled entities, or their director-related entities, may purchase services from or provide services to the Consolidated Entity. These purchases or sales are on the same terms and conditions as those entered into by other employees, suppliers or customers of the Consolidated Entity and are trivial or domestic in nature.

All transactions with director-related entities are disclosed to the Board and reviewed to ensure they bring a benefit to the Consolidated Entity.

Mr A G Moufarrige has an interest in and is a Director of Tekfon Pty Ltd (Tekfon). Servcorp has a lease on arm's length terms with Tekfon for the use of Tekfon's premises for storage. Servcorp utilises off-site storage facilities in many of its global locations, for storage of office furniture and retention of records. Tekfon's premises are in a suburb of Sydney, and have been utilised by Servcorp's Sydney locations and head office for storage since before the Consolidated Entities IPO in 1999. Research confirms that the lease is at below the market rate for similar facilities in the area. The Board, with Mr A G Moufarrige absent, reviews the lease with Tekfon on an annual basis to ensure that the terms are at market rate or better.

A relative of Mr A G Moufarrige has an interest in Enideb Pty Ltd (Enideb). Mr A G Moufarrige has no interest in the affairs of Enideb. Enideb operates the Servcorp franchise in Canberra on arm's length terms. The Canberra franchise has been operating for more than 27 years, and the Canberra locations bring a benefit to Servcorp's operations. The Board reviews the terms of the franchise agreement on a regular basis to ensure that it is conducted on proper commercial terms, consistent with any other franchise operations.

Mr A G Moufarrige has an interest in and is a Director of Sovori Pty Ltd (Sovori). Mr T Moufarrige, is also a director of Sovori. Mr A G Moufarrige has personal credit cards which, in the main, are used to pay for Servcorp expenses during his business travels. For convenience, these are paid by Servcorp whilst he travels and they are then reconciled upon his return and personal expenses are repaid to Servcorp by Sovori. The Chairman has oversight over the reconciliations.

Mr A G Moufarrige and Mr R Holiiday-Smith both have an interest in Thru, Inc (Thru). Thru provided IT services to Servcorp on arm's length terms. Mr A G Moufarrige and Mr R Holliday- Smith did not have any involvement in the negotiation of the terms of the arrangement with Thru. Servcorp's IT management regularly reviewed the terms and conditions of the contract with Thru to ensure it was commercially beneficial to Servcorp. During the financial year, the decision was taken to cease using the IT services provided by Thru as more beneficial terms were available through another provider.

Mr T Moufarrige has an interest in and was a Director of Nualight AUSNZ Pty Ltd (Nualight) and Light Energy Australia Pty Ltd (LEA). Nualight and LEA are clients of Servcorp in Sydney, Perth, Adelaide, Brisbane and London. From time to time Nualight and LEA also provides lighting products to Servcorp on arm's length terms. The Board, with Mr T Moufarrige absent, reviews the terms of any contract to supply lighting services, to ensure that the terms bring a commercial benefit to Servcorp.

Mr T Moufarrige, has an interest in and is a Director of Spigoli Pty Ltd. Mr T Moufarrige and Spigoli Pty Ltd are clients of Servcorp in Sydney. Services provided by Servcorp are at market terms and rates.

Mr B Corlett is provided an office in Sydney for use as necessary in carrying out his duties as Chairman. Mr B Corlett pays full market rate for any services he utilises.

Servcorp has in excess of 21,000 clients globally. From time to time a client will be an entity which is defined as a Director related party, even though the Director has had no involvement in the decision to become a client of Servcorp. The following disclosures fall into this category.

Mr B Corlett was a Director of Fortius Funds Management Pty Ltd, a related company of Fortius Global Real Estate Securities. Fortius Global Real Estate Securities was a client of Servcorp in Singapore. Mr B Corlett did not have any involvement in the negotiation of the terms of the arrangement with Fortius Global Real Estate Securities.

A relative of Mr B Corlett, has an interest in Highbury Partnership. Highbury Partnership was a client of Servcorp in Sydney. Mr B Corlett did not have any involvement in the negotiation of the terms of the arrangement with Highbury Partnership.

A relative of Mr B Corlett, has an interest in TDM Asset Management Pty Ltd. TDM Asset Management Pty Ltd is a client in New York. Mr B Corlett has no interest in the affairs of TDM Asset Management Pty Ltd nor any involvement in the negotiation of the terms of thearrangement with TDM Asset Management Pty Ltd.

Mr R Holliday-Smith, has an interest in and is the Chairman of ASX Limited. ASX Operations Pty Ltd, a subsidiary company of ASX Limited, is a client of Servcorp in London and Hong Kong. Mr R Holliday-Smith did not have any involvement in the negotiation of the terms of the arrangement with ASX Operations Pty Ltd.

23. RELATED PARTY DISCLOSURES (CONTINUED)

Other transactions with the Company and its controlled entities (continued)
The terms and conditions of the transactions with Directors and their director-related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director-related entities on an arm's length basis.

The value of the transactions during the year with Directors and their director-related entities were as follows:

			CONSOLIDATED	
DIRECTOR	DIRECTOR-RELATED ENTITY	TRANSACTION	2017 $	2016 $
A G Moufarrige	Tekfon Pty Ltd	Premises rental	89,326	87,889
A G Moufarrige	Enideb Pty Ltd	Franchisee	741,346	837,184
A G Moufarrige, T Moufarrige	Sovori Pty Ltd	Reimbursements	90,431	344,675
A G Moufarrige, R Holliday–Smith	Thru, Inc.	IT services	71,229	143,491
T Moufarrige	Nualight AUSNZ Pty Ltd and	Client	7,779	10,368
	Light Energy Australia Pty Ltd	Supplier	86,239	420,569
T Moufarrige	Spigoli Pty Ltd	Client	8,812	7,426
T Moufarrige	Taine Moufarrige	Reimbursements	19,307	12,448
B Corlett	Bruce Corlett	Client	45,535	-
B Corlett	Fortius Global Real Estate Securities	Client	488	28,341
B Corlett	Highbury Partnership	Client	-	11,488
B Corlett	TDM Asset Management Pty Ltd	Client	8,812	8,829
R Holliday–Smith	ASX Operations Pty Ltd	Client	419,057	262,421

Amounts receivable from and payable to Directors and their director-related entities at balance sheet date arising from these transactions were as follows:

	2017 $	2016 $
Current receivable/ (payable)		
Tekfon Pty Ltd	-	(7,360)
Enideb Pty Ltd	50,193	74,545
Sovori Pty Ltd	21,995	56,470
Nualight AUSNZ Pty Ltd and Light Energy Australia Pty Ltd	2,181	1,676
Spigoli Pty Ltd	582	568
Taine Moufarrige	19,307	12,448
Bruce Corlett	3,937	-
Fortius Global Real Estate Securities	-	3,314
TDM Asset Management Pty Ltd	771	1,318
ASX Operations Pty Ltd	37,866	28,927

24. PARENT ENTITY DISCLOSURES

	THE COMPANY	
	2017 $'000	2016 $'000
FINANCIAL POSITION		
ASSETS		
Current assets	213,907	210,617
Non-current assets	21,436	22,789
Total assets	235,343	233,406
LIABILITIES		
Current liabilities	66,030	60,394
Total liabilities	66,030	60,394
EQUITY		
Issued capital	154,122	154,122
Retained earnings	15,191	18,890
Total equity	169,313	173,012
FINANCIAL PERFORMANCE		
Profit for the year	19,833	10,599
Total comprehensive income	19,833	10,599

As at 30 June 2017:

i Servcorp Limited guaranteed Company Headquarters Limited (a subsidiary) as part of a New Zealand lease.

ii In January 2016 Servcorp Limited renewed a Corporate Guarantee and Indemnity with the Australian and New Zealand Banking Group Limited, pursuant to which the bank agreed to make available to the Consolidated Entity a $37,000,000 interchangeable facility for general corporate purposes. The liability under the deed by and between the Australian and New Zealand companies is limited to $52,000,000. As at 30 June 2017 the fair value of these commitments was Nil (2016: Nil).

iii There were no contingent liabilities of the parent entity.

iv There were no commitments for the acquisition of property, plant and equipment by the parent entity.

25. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2017 $	2016 $
A. AUDITOR OF THE PARENT ENTITY		
(Deloitte Touche Tohmatsu Australia (DTT))		
Audit and review of financial reports	603,947	570,076
Other services - tax	26,250	93,789
	630,197	663,865
B. OTHER AUDITORS		
(DTT International Associates)		
Audit and review of financial reports	693,140	759,994
Other services - tax	96,239	158,197
Other services - financial statements preparation	81,927	137,676
	871,306	1,055,867
	1,501,503	1,719,732

The auditor of Servcorp Limited is Deloitte Touche Tohmatsu.

26. SUBSEQUENT EVENTS

Other than any matters noted below, there has not arisen in the interval between reporting date and the date of this Financial Report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Dividend

On 23 August 2017 the Directors declared a final dividend of 13.00 cents per share, franked to 50%, payable on 5 October 2017.

The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 30 June 2017.

Directors' Declaration

The Directors declare that:

a. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

b. the attached Financial Statements, set out on pages 59 to 92 are in compliance with International Financial Reporting Standards, as stated in Note 1 to the Consolidated financial report;

c. in the Directors' opinion, the attached Financial Statements and notes thereto are in accordance with the *Corporations Act 2001*, including:

   i. compliance with accounting standards; and

   ii. giving a true and fair view of the financial position and performance of the Consolidated Entity;

d. the Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors pursuant to section 295(5) of the *Corporations Act 2001*.

A G Moufarrige AO
Managing Director and CEO

Dated at Sydney this 23rd day of August 2017.

Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of Servcorp Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Servcorp Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 auditor independence requirements of 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 also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Accounting for lease agreements as tenant The Group frequently enters into agreements for the leasing of new properties or renegotiates or extends its existing leases. These leasing agreements typically establish base rents for the floor as well as containing additional terms and conditions that impact the occupancy expenses to be recognised. These may include lease incentives received (note 13), rent review clauses (note 2c), make-good provisions (note 16) or other terms and conditions. The identification of the relevant terms and conditions is a manual process and the accounting treatment involves non-systematic calculations and/or judgement to be exercised by management.	Our procedures included but were not limited to: - obtaining an understanding of key controls management has in place to identify and accurately account for key terms and conditions of the lease agreements; - on a sample basis: o reading new, renewed and/or amended lease agreements; o identifying terms that may give rise to specific accounting requirements; o independently calculating the rent expense and other associated balances over the life of the agreement and comparing that to management's calculation for those leases selected for detailed analysis; - making inquiries of management to identify changes to existing leases and on a sample basis tested existing leases to determine whether any changes have been made to the agreements and as a result the associated accounting; - evaluating the appropriateness of the Group's accounting policy for make-good and determining whether it has been appropriately applied; and - evaluating the adequacy of the Group's disclosures in respect of the leases.
Deferred tax assets As disclosed in note 4, the Group has recognised a deferred tax asset of $13,859,000 with respect to tax losses at 30 June 2017. The recognition of a deferred tax asset is judgmental due to the requirement to assess whether the tax losses are likely to be recoverable in each tax jurisdiction in the future. This requires an assessment of forecast future taxable income in each tax jurisdiction. Accordingly the recognition and valuation of deferred tax assets arising from tax losses is considered a key audit matter.	Our procedures included but were not limited to: - utilising our tax specialists to consider the tax calculations and likelihood of the continuing availability of losses within relevant tax jurisdictions; - evaluating the Group's forecast taxable income in relevant jurisdictions to assess the extent of future taxable income. This included: o considering past performance of the Group, o assessing historic forecasting accuracy; o challenging the appropriateness of key assumptions such as growth rates used within the forecasts, including consideration of local market conditions and historical experience in other markets, and o evaluating management actions taken in support of delivering the forecast; and - evaluating the adequacy of the Group's disclosures in respect of the tax losses.

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Governance Statement, Directors' Report, and Shareholder Information and Corporate Information, which we obtained prior to the date of this auditor's report. The other information also includes the following documents which will be included in the annual report (but does not include the financial report and our auditor's report thereon): '2017 Results', 'Global Locations', 'Chairman's

Auditor's Report

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Message', 'CEO's Message', 'Global Expansion', 'Information and Communication Technology', 'Servcorp's Global Networking Map', 'Environmental Commitment', 'Community Service' and 'The Board and Executive', which are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the '2017 Results', 'Global Locations', 'Chairman's Message', 'CEO's Message', 'Global Expansion', 'Information and Communication Technology', 'Servcorp's Global Networking Map', 'Environmental Commitment', 'Community Service' and 'The Board and Executive', if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Directors' Responsibilities for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 46 to 57 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Servcorp Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants
Sydney, 23 August 2017

The shareholder information set out below is provided in accordance with the Listing Rules and was applicable as at 01 September 2017.

CLASS OF SHARES AND VOTING RIGHTS

Ordinary shares

There were 3,005 holders of the ordinary shares of the Company.

At a general meeting:

- On a show of hands, every member present in person or by direct vote, proxy, attorney or representative has one vote;
- On a poll, every member present has one vote for each fully paid share held.

Options

There were 6 holders of options over 295,000 unissued ordinary shares of the Company, granted to employees under the Servcorp Executive Share Option Scheme.

There are no voting rights attached to the options. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. The options are unquoted.

ON-MARKET BUY-BACK

There is no current on-market buy-back.

DISTRIBUTION OF SHAREHOLDERS

	ORDINARY SHARES			OPTIONS		
SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF SHARES	NUMBER OF HOLDERS	NUMBER OF OPTIONS	% OF OPTIONS
1 - 1,000	1,254	628,168	0.64%	-	-	-
1,001 - 5,000	1,206	3,061,441	3.11%	-	-	-
5,001 - 10,000	308	2,300,534	2.34%	-	-	-
10,001 - 100,000	208	4,974,168	5.05%	6	295,000	100%
100,001 and over	29	87,467,964	88.86%	-	-	-
Totals	3,005	98,432,275	100.00%	6	295,000	100%

There were 149 holders of ordinary shares holding less than a marketable parcel, based on the closing market price at the specified date.

SUBSTANTIAL SHAREHOLDERS

The following organisations have given a substantial shareholder notice to Servcorp.

NAME	NUMBER OF SHARES	% OF VOTING POWER
Sovori Pty Ltd	49,812,927	51.19%

Shareholder Information

TWENTY LARGEST SHAREHOLDERS

HOLDER NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF CAPITAL HELD
BNP Paribas Nominees Pty Ltd (DRP)	1,195,497	1.21%
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	2,830,289	2.88%
Citicorp Nominees Pty Limited	7,063,773	7.18%
Eniat Pty Ltd	1,800,000	1.83%
HSBC Custody Nominees (Australia) Limited	12,208,895	12.40%
HSBC Custody Nominees (Australia) Limited - A/C 2	910,133	0.92%
JP Morgan Nominees Australia Limited	5,136,279	5.22%
MFLE Pty Ltd	1,800,000	1.83%
Morgan Stanley Australia Securities (Nominee) Pty Ltd (No 1 Account)	439,512	0.45%
Moufarrige, Alfred George	547,436	0.56%
National Nominees Limited	3,617,767	3.68%
NRM Funds Pty Ltd (Moufarrige Super Fund A/C)	210,450	0.21%
Omnioffices Pty Limited	452,592	0.46%
Otterpaw Pty Ltd (Penguin A/C)	165,046	0.17%
RBC Investor Services Australia Nominees Pty Limited (Bkcust A/C)	422,895	0.43%
RBC Investor Services Australia Nominees Pty Limited (VFA A/C)	323,343	0.33%
Sandhurst Trustees Ltd (Wentworth Williamson A/C)	426,012	0.43%
Sovori Pty Ltd	42,263,060	42.94%
UBS Nominees Pty Ltd	4,599,302	4.67%
Uvira Superannuation Pty Limited (Uvira Holdings Employees Super Fund Account)	413,474	0.42%
Totals for Top 20	86,825,755	88.21%

Corporate Information

Directors

Bruce Corlett	Chairman & non-executive director, independent
Rick Holliday-Smith	Non-executive director, independent
Alf Moufarrige	CEO & Managing director
Taine Moufarrige	Executive director
Mark Vaile	Non-executive director, independent

Company secretary

Greg Pearce

Registered office and principal office

Level 63, MLC Centre
19 Martin Place
Sydney NSW 2000

Telephone: + 61 (2) 9231 7500
Facsimile: + 61 (2) 9231 7665

Auditor

Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000

Share registry

Boardroom Pty Limited
Level 12
Grosvenor Place
225 George Street
Sydney NSW 2000

GPO Box 3993
Sydney NSW 2001

Telephone: 1300 737 760
+ 61 (2) 9290 9600
Facsimilie + 61 (2) 9279 0664
Email: enquiries@boardroomlimited.com.au

Stock exchange

Servcorp Limited shares are quoted on the Australian Securities Exchange under the code **SRV**.
The Home Exchange is Sydney.

Annual general meeting

The annual general meeting of Servcorp Limited will be held at 4.30pm on Wednesday, 08 November 2017 at:

The Westin
Level 6, Barnet Room
1 Martin Place
Sydney NSW 2000

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