SERVCORP LIMITED
ABN 97 089 222 506

APPENDIX 4E

Preliminary Final Report
For the financial year ended
30 June 2018

The information in this document should be read in conjunction with Servcorp Limited's Directors' Report and Financial Report for the twelve months ended 30 June 2018, the 2018 Annual Financial Report and public announcements made during the period in accordance with continuous disclosure obligations arising under the Corporations Act 2001 and ASX Listing Rules

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Reporting Period

Current period:	1 July 2017 to 30 June 2018
Previous corresponding period:	1 July 2016 to 30 June 2017

Results for announcement to the market

				$'000
Revenue and other income from ordinary activities	down	5%	to	$314,403
Profit from ordinary activities after tax attributable to members	down	75%	to	$10,062
Net profit for the period attributable to members	down	75%	to	$10,062

Dividends	**Total amount** **$'000**	**Amount per security** **(cents per share)**	**Franked amount per security** **(cents per share)**
Current period			
Final dividend declared	12,586	13.00c	3.25c
Interim dividend paid	12,796	13.00c	0.98c
Previous corresponding period			
Final dividend paid	12,796	13.00c	6.50c
Interim dividend paid	12,796	13.00c	6.50c

Record date for determining entitlements to the dividend	4 September 2018
Dividend payment date	4 October 2018

There is no foreign conduit income attributed to this dividend.

	30 June 2018 **$**	**30 June 2017** **$**
Net tangible asset backing		
Net tangible asset backing per ordinary security	$2.43	$2.56

Additional 4E disclosures can be found in the Notes to the Servcorp Consolidated Financial Report for the year ended 30 June 2018 lodged with the ASX on 22 August 2018.

Management Discussion & Analysis

Introduction

The flexible workspace industry (as it is now known) has seen unprecedented change as commercial real estate experiences significant disruption. Whilst this brings new competition and certain challenges, Servcorp believes it brings immense opportunity. We believe global flexible workspace will grow from 5% of all commercial real estate to 20% in the medium term. Our opportunity is to transition from being the premium provider of this space in a niche market to the premium provider of this space in a more mainstream market. This transition and transformation has impacted our short term performance in some markets, but we believe Servcorp's investment in strategic initiatives will position us to capitalise on significant long term opportunities.

Operating performance

Reconciliation of Statutory NPBT and NPAT to Underlying NPBT and NPAT:

	AUD million
Statutory NPBT	**32.1**
Add:	
Strategic initiative expenses	5.8
Underlying NPBT	**37.9**
Less:	
Tax expense	9.0
Underlying NPAT	**28.9**
Less:	
Strategic initiative expenses	5.8
One-off, non-cash tax adjustment relating to USA deferred tax assets	13.0
Statutory NPAT	**10.1**

- Net operating cash flows $50.1 million, down $4.3 million
- Statutory NPBT $32.1 million, down $16.1 million; within FY18 NPBT guidance of between $30.0 million and $35.0 million
- One-off strategic initiative expenses incurred in FY18 of $5.8 million
- Underlying NPBT $37.9 million (FY17: $48.2 million)
- Excluding the performance of the USA, Like for Like performance is flat on FY17

Strong balance sheet and stable outlook

- Cash balances of $97.1 million, down 10%, driven by $5.2 million strategic initiative cash out flows and $7.3 million share buyback program
- Net operating cash flows before tax 194% of FY18 NPBT, enabling self-funded capital expenditure and sustained dividends
- No external net debt
- FY19 NPBT guidance of between $34.0 million to $40.0 million, FY19 new floor operating losses of between $4.0 million and $5.0 million and FY19 net operating cash flows exceeding $50.0 million
- Final dividend of 13.00 cps, declared for FY18, 25% franked
- Forecast dividends of 26.00 cps for FY19 (13.00 cps in each half); franking levels are uncertain

Strategic Initiatives

In response to the impact seen in our global market from the growing emergence of new and well-funded disruptive players in flexible workspace, we undertook several major review and restructuring initiatives.

These initiatives included a comprehensive industry review by consultants Pottinger that identified the new trends and considered the future implications for both service providers like Servcorp and for major global commercial property owners. The review included assessment of our current operating system platforms for property management, communication services and related infrastructure, and for the communities already existing within the Servcorp client base.

The review identified significant competitive and valuable capabilities relevant for both our existing business and for the new direction of this broadening market sector.

The review led to consideration of different ways to leverage the Servcorp global presence to unlock wealth for shareholders by possible strategic partnering in some global market segments. The process identified how we might restructure our businesses, who might be considered as strategic partners, and whether that could occur in new unlisted or listed segment oriented companies leveraging the existing Servcorp systems capabilities.

In conjunction, we considered the ability of selected segment areas to be ready for major transactions involving external parties and we carried out a series of internal tasks to substantially improve our ability to be agile and ready for new possible initiatives.

The process identified several major global commercial property groups considering the same issues, but from a different viewpoint. We will continue to engage with them to understand whether there are mutually attractive and commercially valuable activities to consider together.

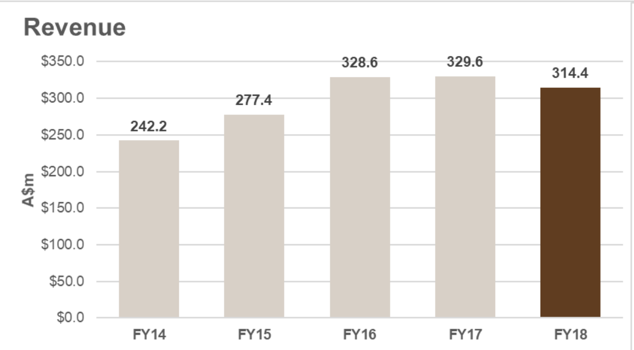
We are committed to sound commercial practice, including generating regular and recurring operating cash flows, which in FY18 exceeded $50.0 million.

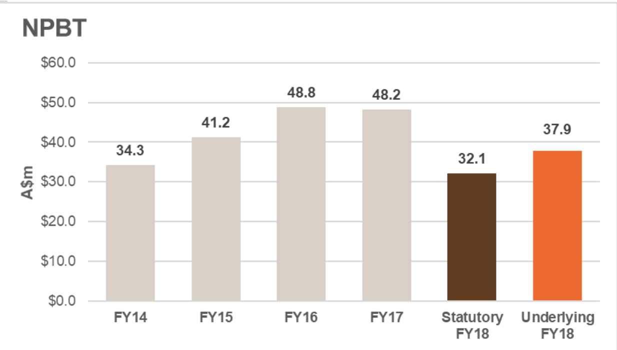
During FY18 we undertook this strategic work to make us future ready; the related costs have been fully covered in the FY18 results.

We have systems and experience that are unique. We are redirecting our office floor look and feel to a more flexible work oriented environment, and we are focussed on how we better explain our value proposition to present and future clients so they can understand the benefits of becoming part of the Servcorp Community.

FY18 – Overview

FY18 NPBT of $32.1 million underpinned by a strong North Asia result offset by the underperformance of the USA, Saudi Arabia and Singapore and $5.8 million of one-off expenses relating to strategic initiatives. Underlying NPBT of $37.9 million excluding $5.8 million of one-off expenses relating to strategic initiatives.

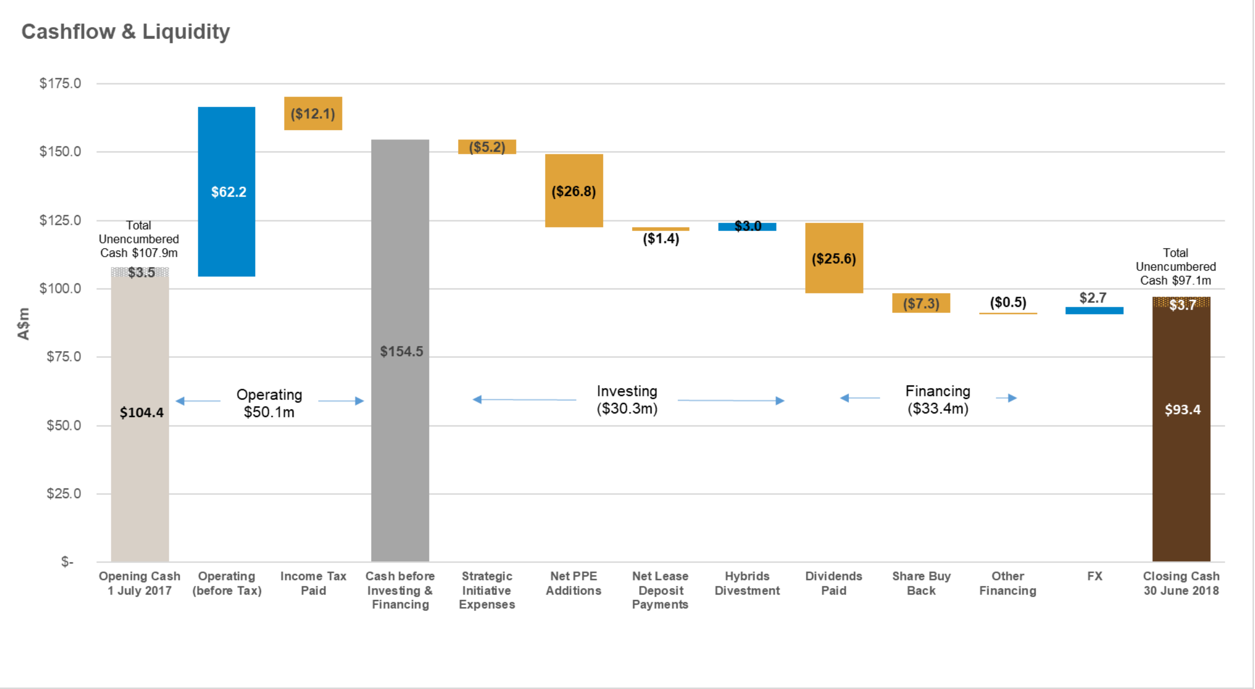




FY18 – Overview continued

Following a USA Federal corporate tax rate reduction in December 2017 from 35% to 21%, and a review of the carried forward loss recoverability, the tax expense includes a one-off, non-cash $13.0 million adjustment relating to the USA deferred tax asset.

Like for Like floors occupancy was 72% at 30 June 2018 (30 June 2017: 74%). All floors occupancy was 71% at 30 June 2018 (30 June 2017: 73%).



Cash flows generated from operations of $50.1 million, down $4.3 million in FY18 compared to FY17.

Capital expenditure was $32.8 million, up $4.7 million from $28.1 million in FY17 principally representing our investment in reshaping our portfolio to modernise current fit-outs and to enhance their ecosystem to incorporate coworking as an integral piece. In addition we received $6.0 million from the sale of a property accounted for in FY17.

We undertook a share buyback program in the second half of FY18, spending $7.3 million acquiring approximately 1.6 million shares. In addition we paid $25.6 million in dividends and divested $3.0 million of hybrid securities during FY18.

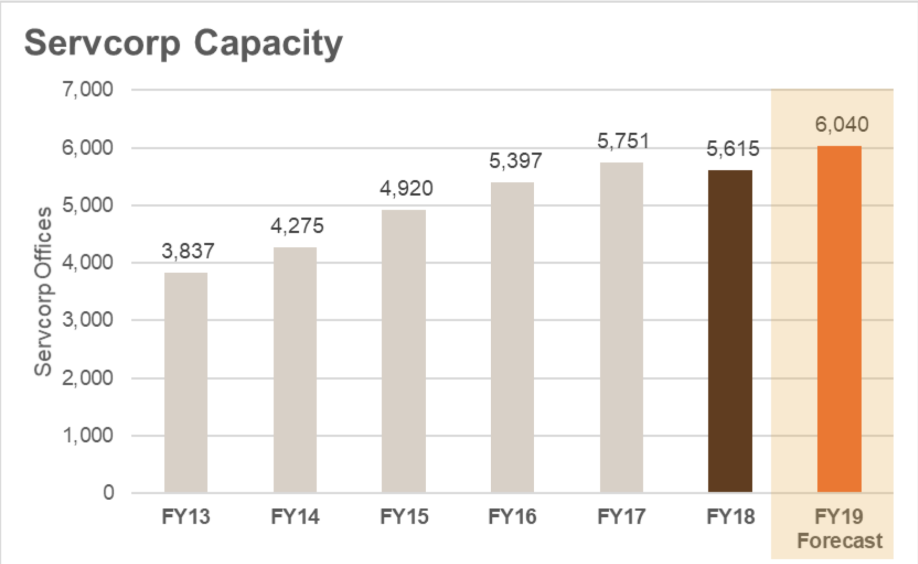
After the impact of foreign exchange rates and $5.2 million of strategic initiative cash out flows and $7.3 million on the share buyback program, overall cash decreased by $10.8 million from 30 June 2017 to $97.1 million.

Servcorp Capacity

During FY18 we added two small new locations, Louis Vuitton Building in Beirut and Mercury Tower in Bangkok.

Our investment in reshaping our portfolio to modernise current fit-outs and enhance our coworking offering is progressing well. To date we have completed 61 locations and expect to complete a further 18 locations during the remainder of calendar 2018. The early results from these fit-outs are encouraging.

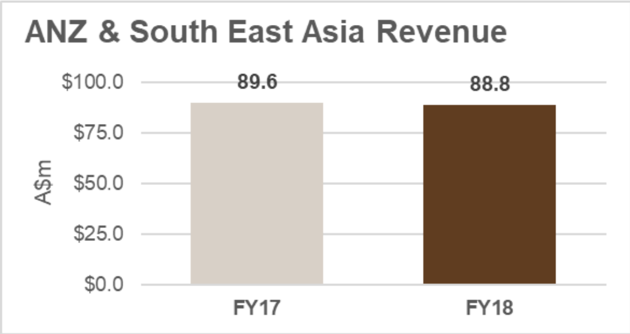
We are adding approximately 7.5% to capacity during FY19 including our first location in Germany, two new locations in Japan and one in Saudi Arabia. There will be further capacity added stemming from an expansion to our existing location in Mayfair, London.

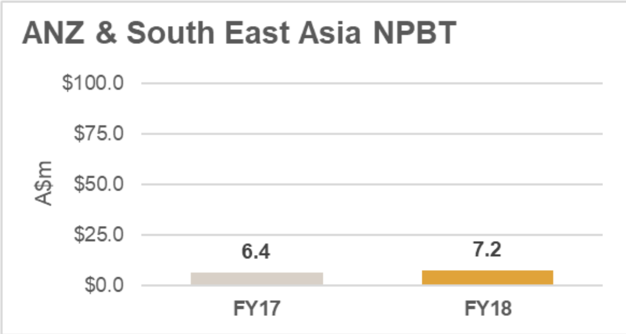


Our global footprint encompasses 154 floors, in 54 cities across 24 countries.

Operating Summary by Region

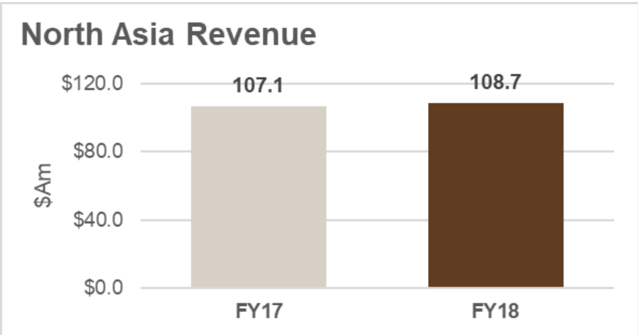
ANZ & South East Asia

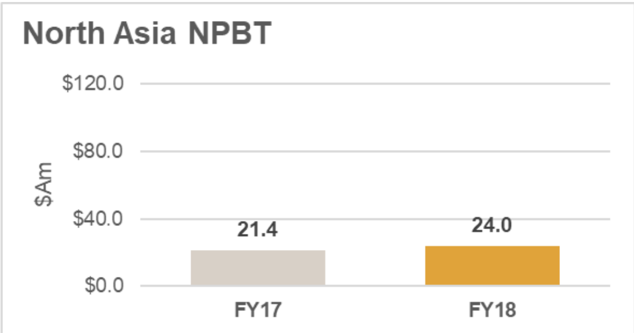




NPBT performance in ANZ / SEA increased by 13%. Singapore and Indonesia underperformed while the balance of the region is healthy.

North Asia

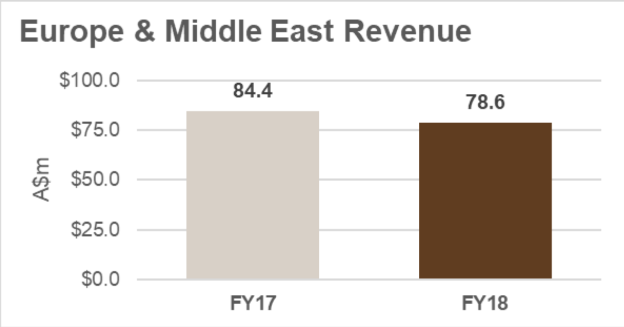


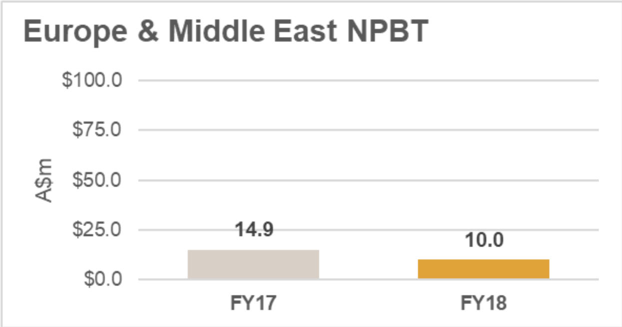


North Asia as a whole produced an outstanding result. NPBT for FY18 was $24.0 million, up 12% from $21.4 million in FY17.

Operating Summary by Region – continued

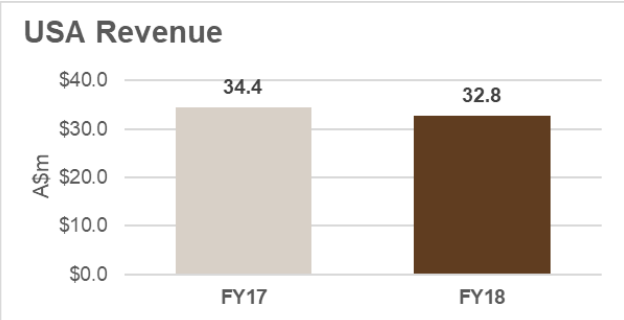
Europe & Middle East

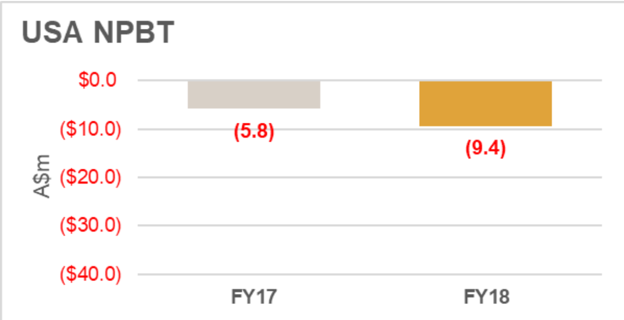




Like for Like floors in the Europe and Middle East segment produced a weaker result in FY18 mainly due to tough markets in Saudi Arabia partially offset by a solid UK result. The UAE also had a tough year given the oversupply of office space particularly Abu Dhabi. Despite geo-political difficulties Qatar and Iran continue to perform and Turkey performed to expectations.

USA





We continue to make slower progress than we expect in the USA as a result of several internal and external issues; in part our future direction will be assisted by the strategic initiatives work carried out in FY18. But we need to improve our on-the-ground operating effectiveness and to continue to improve market awareness and our ability to fully explain the Servcorp offering.

We are in the process of repositioning our US activities including additions to the leadership group and a new look and feel to better align with the new market direction for the sector now called flexible workspace.

We believe we have unique and valuable capabilities and we need to leverage them to competitive advantage. At the same time we need to be patient as other competitors have limited focus on profitability at this time, this creates a challenging environment but one that we believe will normalise. We have confidence we can compete profitably with improved market awareness and understanding of our offering, and by leveraging our existing systems advantages and experience, but time and patience is required.

From a financial viewpoint the tax expense includes a one-off, non-cash $13.0 million adjustment relating to the USA deferred tax assets ($7.6 million USA tax rate changes and $5.4 million derecognition of tax losses). This has adversely impacted Statutory NPAT. We need to carefully monitor the other USA asset carrying values but we believe there is still significant potential in the USA.

Financial Summary

FY18 revenue and other income was down 5% to $314.4 million (FY17: $329.6 million). FY18 operating revenue expressed in constant currency terms (i.e. at FY18 exchange rates) decreased by 1% compared to FY17.

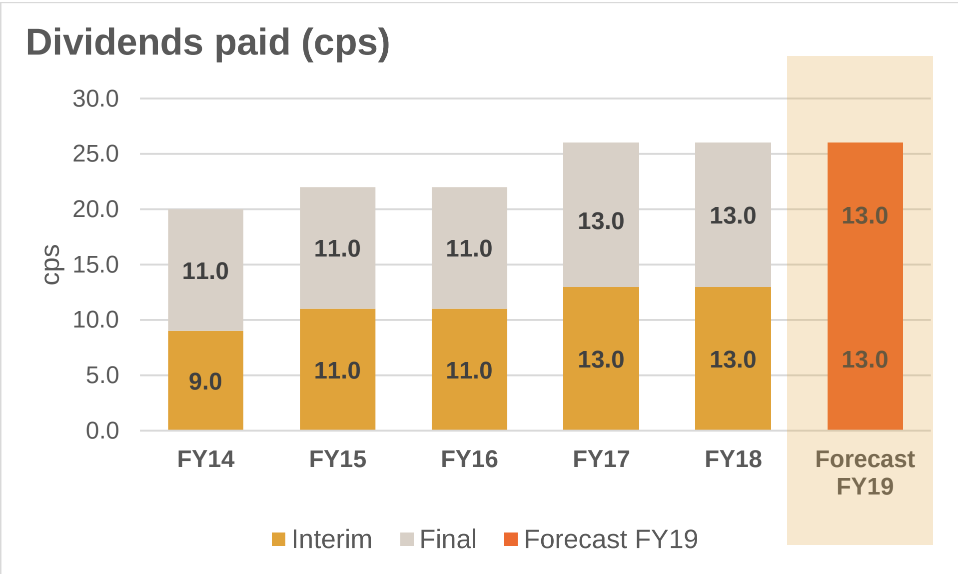
FY18 NPBT was $32.1 million, down 33% from FY17 NPBT of $48.2 million. Excluding expenses relating to strategic initiatives of $5.8 million, Underlying NPBT was $37.9 million, down 21% on FY17.

Net Tangible Assets per share is down to $2.43 per share from $2.56 per share at 30 June 2017 stemming largely from strategic initiative expenses of $5.8 million and the $13.0 million adjustment to the USA deferred tax asset.

Cash and cash equivalents as at 30 June 2018 remained healthy at $93.4 million (30 June 2017: $104.4 million).

Other financial assets includes mark-to-market investments in bank hybrid variable rate securities of $11.4 million (30 June 2017: $14.4 million).

Dividends



The Directors have declared a final dividend of 13.0 cps, 25% franked, payable on 4 October 2018.

This brings total dividends payable in relation to FY18 to 26.0 cps, 16% franked (FY17 dividends: 26.0 cps).

Future dividends are subject to currencies remaining constant, global financial markets remaining stable and no unforeseen circumstances.

Outlook

FY19 NPBT guidance of between $34.0 million to $40.0 million, FY19 new floor operating losses of between $4.0 million and $5.0 million and FY19 net operating cash flows exceeding $50.0 million.

We are in a period of unprecedented change, which presents an opportunity for Servcorp to capitalise on the rapidly evolving workplace industry. While the flexible workspace sector continues to be highly competitive, excluding the USA, our underlying business is performing satisfactorily in most regions.

The USA continues to be our primary focus for improvement. In recent months we have refined specific strategies to assist in turning the USA business around. These include:

- Appointing Mr. Charles Robinson as Senior Vice President for the USA on 1 July 2018 to support Chief Operating Officer, Mr. Marcus Moufarrige.
  Charles joined Servcorp in June 2017 and was formerly a partner with the international law firm Freshfields Bruckhaus Deringer, practicing law for 17 years in New York, London, Sydney and Melbourne and also worked during this time at Clifford Chance, Sullivan & Cromwell and Mallesons. In addition, prior to joining Servcorp, Charles was the Chief Growth Officer at Love Home Swap, the global home exchange platform;
- Retraining our on-the-ground teams;
- Improving retention of team members and clients;
- Launching a new website, which has positively impacted virtual office sales;
- Targeted advertising campaigns;
- 9 locations identified for coworking installation; and
- Complete renewal of broker outreach.

We are continuing to invest in reshaping our global portfolio to modernise current fit-outs and enhance our coworking offering. We have completed 61 locations to date and expect to complete a further 18 locations during the remainder of calendar 2018. This new product category is already selling well and is creating new revenue streams.

Other strategic initiatives are already bearing fruit. Servcorp Home, our newly launched customer experience program, combines all of the Servcorp applications and Servcorp Community into one place creating a technology experience unique in the market.

In FY18 we reduced office stock principally as a result of floor closures. In FY19 we anticipate adding 7.5% to capacity reflecting confidence in Servcorp's premium product which is underpinned by an unparalleled information technology platform, superior locations and five star service.

Reflecting Directors' confidence in Servcorp's future, dividends of 26.0 cents per share (13.0 cents in each half) are anticipated to be maintained in FY19, however future franking levels are uncertain.

Despite our recent challenges, we remain optimistic due to our unique strategic positioning, global reach, technology platform, longstanding track record, impressive cash generation and strong net cash position; all of which reinforce our confidence in Servcorp's potential to continue to drive healthy returns for our shareholders.

Forecasts and future dividends are subject to currencies remaining constant, global financial markets remaining stable and no unforeseen circumstances.

Key

FY	Financial year
1H	First half of financial year - six months to 31 December
2H	Second half of financial year - six months to 30 June
NPBT	Net Profit Before Tax
NPAT	Net Profit After Tax
Statutory NPBT	NPBT calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Financial Report
Statutory NPAT	NPAT calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Financial Report
Underlying NPBT	Is the Statutory NPBT adjusted for significant items that are one-off in nature and that do not reflect the underlying performance of our business
Underlying NPAT	Is the Statutory NPAT adjusted for significant tax adjustments that are one-off in nature and that do not reflect the underlying tax expense
EBITDA	Earnings before interest, tax, depreciation and amortisation
cps	Cents per share
Like for Like	Like for Like include results for floors that were open in both the current and comparative reporting periods i.e. it excludes new floor openings in the current reporting period and closed floors.
ANZ	Australia & New Zealand
SEA	South East Asia
EME	Europe & Middle East
USA	United States of America

Servcorp Limited

and its controlled entities

2018 Statutory Accounts

For the 12 months ended

30 June 2018

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Corporate Governance

The Board of Directors of Servcorp Limited (Servcorp or the Company) 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 Servcorp's governance policies and practices, where such practices will bring benefits or efficiencies to Servcorp.

Details of Servcorp's compliance are set out below, and in the ASX principles compliance statement on pages 6 to 13 of this annual report. The information in this statement is current as at 22 August 2018 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 Servcorp's strategic direction and to oversee Servcorp's management and business activities.

Responsibility for management of Servcorp'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 Servcorp'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 Servcorp 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 Servcorp.

The Board Charter is available on Servcorps'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 the Company's Constitution which requires a minimum of three Directors and a maximum of twelve Directors.

The Board comprises six Directors (two executive and four non-executive). All four non-executive Directors are considered to be independent.

The only change to the Board since the last annual report was the appointment of Mrs Wallis Graham on 3 October 2017. Mrs Graham retired at the 2017 annual general meeting and, having made herself available, was elected by shareholders at that meeting.

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 14 and 15 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 2018 AGM	SEEKING RE-ELECTION AT 2018 AGM
A G Moufarrige	24 August 1999	No	No	No	N/A
B Corlett	19 October 1999	Yes	Yes	No	N/A
R Holliday-Smith	19 October 1999	Yes	Yes	Yes	Yes
T Moufarrige	25 November 2004	No	No	No	N/A
M Vaile	27 June 2011	Yes	Yes	No	N/A
W Graham	3 October 2017	Yes	Yes	No	N/A

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.

All Director appointments or changes are 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 non-executive 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 Servcorp'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.

DIVERSITY

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

Servcorp 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, race or religion. Servcorp benefits from the diversity of its team members and has training programs to assist with developing their skills and with career advancement. Servcorp travels team members to work in its global locations, giving them exposure to and understanding of various differing cultures and marketplaces.

Servcorp 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	818	82%	18%
Senior executive	25	44%	56%
Board	6	17%	83%

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

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 2018 with the WGE Agency and has received notice that the Company and its Australian subsidiaries are compliant with the WGE Act.

Shareholders may access the report on Servcorp'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 Servcorp. 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 (ceased 15 December 2017)
- The Hon. M Vaile
- Mrs W Graham (appointed 3 October 2017)

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 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 Servcorp's website; servcorp.com.au

Nomination Committee

The Nomination Committee members during the year were:

- Mr B Corlett (Chair)
- Mr R Holliday-Smith (ceased 15 December 2017)
- The Hon. M Vaile
- Mrs W Graham (appointed 3 October 2017)

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 reponisibilities 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;

The Nomination Committee did not meet during the year.

Remuneration Committee

The Remuneration Committee members during the year were:

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

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.

The Remuneration Committee reviews the executive remuneration structures each year to ensure they continue to be appropriate. Details are included in the Remuneration Report on pages 24 to 35 of this annual report.

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

The Remuneration Committee Charter is available on Servcorp'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 2 of this annual report. The Board Charter is available on Servcorp'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. Servcorp 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. Servcorp 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. Servcorp 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, race or religion. Servcorp benefits from the diversity of its team members and has training programs to assist with developing their skills and with career advancement. Servcorp travels team members to work in its global locations, giving them exposure to, and understanding of, various differing cultures and marketplaces. Servcorp has a high participation of women across all employment levels, including in senior executive positions. There is one woman 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 Servcorp is provided in the table on page 4 of this annual report. "Senior executive" are general managers, senior managers and Head Office executives who report directly to the CEO, COO or Executive Director.

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 Servcorp.
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 28 to 31 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 Servcorp's website; servcorp.com.au (4) the members of the Committee are disclosed on page 5 of this annual report. (5) the Committee 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.	The current non-executive Directors each bring a mix of skills and experience to the Board. A preliminary skills matrix was developed during the appointment of Mrs Graham as an additional non-executive Director in October 2017. The Board is in the process of compiling an expanded Board skills matrix and is monitoring current practices to ensure this matrix will be meaningful to shareholders.

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 14 and 15. 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.	Servcorp 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. Servcorp'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 Servcorp's website; servcorp.com.au (4) the relevant qualifications and experience of the members of the Committee are provided on pages 4, 14 and 15 of this annual report. (5) the Committee met four times during the year. Attendance at meetings is disclosed at page 16 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.

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.

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 24 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 Servcorp's website, servcorp.com.au (4) the members of the Committee are disclosed on page 5 of this annual report. (5) the Committee met two times during the year. Attendance at meetings is disclosed on page 16 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 27 to 31 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 Servcorp'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 2018.

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
(*ceased 15 December 2017*)
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 was Chair of Australian Maritime Systems Ltd until May 2018.

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
(*ceased 15 December 2017*)

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, has a Chartered Accountant qualification 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. Mark is Chairman of the Australian American Leadership Dialogue, Chairman of the Australia Korea Business Council and Co-Chair of the Australia India CEOs Forum. 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.

Directorships of listed entities in the last three years:

– SmartTrans Holdings Limited (SMA) from April 2016 to June 2018 (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).

WALLIS GRAHAM

Independent
Non-executive Director
GAICD

Appointed October 2017

Member of Audit and Risk Committee
Member of Nomination Committee

Wallis has had over 15 years of experience in finance, including funds management, corporate finance, private equity, and investment banking. Her responsibilities have spanned multiple industries, including business services, and she has a strong understanding of emerging technologies and the digital landscape.

Wallis has involvement with many community and charitable organisations. She is currently a Director of Wenona School Limited, the Sydney Youth Orchestras, the Wenona Foundation and the John Brown Cook Foundation, and a member of the Gold Dinner Committee for the Sydney Children's Hospital Foundation.

Directorships of listed entities in the last three years:

– None.

TAINE MOUFARRIGE

Executive Director
BA, LLB

Appointed November 2004

Taine started his professional career as a lawyer.

He joined Servcorp in 1996 as a Trainee Manager. He has 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 rejoined as an executive Director on 1 July 2017.

Taine is a Non-Executive Director of the European Australian Business Council 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, FGIA, FCIS

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 a Fellow 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	NOMINATION COMMITTEE
Number of meetings held	10	4	2	-
Number of meetings attended				
B Corlett (i)	10	2	2	-
R Holliday-Smith	10	4	2	
A G Moufarrige	10			
T Moufarrige	8			
M Vaile	9	3	2	-
W Graham (ii)	8	3		-

Notes:

i Mr B Corlett ceased as a member of the Audit and Risk Committee on 15 December 2017. The attendance recorded is only for meetings held during his membership period.
ii Mrs W Graham was appointed as a Director on 3 October 2017. The attendance recorded is only for meetings held during her Directorship.

The details of the function and membership of the Committees are presented in the Corporate Governance statement on pages 4 and 5.

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.

DIRECTOR	ORDINARY SHARES IN SERVCORP LIMITED		OPTIONS OVER ORDINARY SHARES
	DIRECT	INDIRECT	
B Corlett	-	433,474	-
R Holliday-Smith	-	150,000	-
A G Moufarrige (i)	547,436	49,990,652	-
T Moufarrige (i)	-	1,800,000	-
M Vaile	-	12,930	-
W Graham	-	-	-

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 (2017: Nil).

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 31.

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 (2017: 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.

SHARE BUY-BACK

On 2 May 2018, the Company announced it was establishing an on-market buy-back program to enable the Company to repurchase shares in itself from 16 May 2018 for a maximum period of 3 months.

The program sought to buy up to 5.0 million ordinary shares (being approximately 5.0% of the issued ordinary share capital).

During the year, or since the end of the financial year, the Company has bought back:

Number of shares	1,614,387
Total consideration paid	$7,260,744.89

On 30 May 2018, the Company announced it had ceased the share buy-back.

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, Mrs W Graham 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 2 to 13 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, Coworking 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 $10.06 million (2017: $40.71 million). Unerlying net profit after tax was $37.9 million. Operating revenue was $314.40 million (2017: $329.57 million). Basic and diluted earnings per share was 10.2 cents (2017: 41.4 cents).

	2018 $'000	2017 $'000
Revenue & other income	314,403	329,565
Net profit before tax	32,051	48,193
Net profit after tax	10,062	40,711
Net operating cash flows	50,077	54,354
Cash & investment balances	104,836	118,754
Net assets	250,165	267,175
Earnings per share	$0.102	$0.414
Dividends per share	$0.260	$0.260

DIVIDENDS PAID AND DECLARED

Dividends totalling $25.38 million have been paid or declared by the Company in relation to the financial year ended 30 June 2018 (2017: $25.59 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.

FLEXIBLE WORKSPACE INDUSTRY

The flexible workspace industry (as it is now known) has seen unprecedented change as commercial real estate experiences significant disruption. Whilst this brings new competition and certain challenges, Servcorp believes it brings immense opportunity. We believe global flexible workspace will grow from 5% of all commercial real estate to 20% in the medium term. Our opportunity is to transition from being the premium provider of this space in a niche market to the premium provider of this space in a more mainstream market. This transition and transformation has impacted our short term performance in some markets, but we believe Servcorp's investment in strategic initiatives will position us to capitalise on significant long term opportunities.

STRATEGIC INITIATIVES

In response to the impact seen in our global market from the growing emergence of new and well-funded disruptive players in flexible workspace, we undertook several major review and restructuring initiatives in the 2018 financial year.

These initiatives included a comprehensive industry review by consultants Pottinger that identified the new trends and considered the future implications for both service providers like Servcorp and for major global commercial property owners. The review included assessment of our current operating system platforms for property management, communication services and related infrastructure, and for the communities already existing within the Servcorp client base.

The review identified significant competitive and valuable capabilities relevant for both our existing business and for the new direction of this broadening market sector.

The review led to consideration of different ways to leverage the Servcorp global presence to unlock wealth for shareholders by including possible strategic partnering in some global market segments. The process identified how we might restructure our businesses, who might be considered as strategic partners, and whether that could occur in new unlisted or listed segment oriented companies leveraging the existing Servcorp systems capabilities.

In conjunction, we considered the ability of selected segment areas to be ready for major transactions involving external parties, and we carried out a series of internal tasks to substantially improve our ability to be agile and ready for new possible initiatives.

The process identified several major global commercial property groups considering the same issues, but from a different viewpoint. We will continue to engage with them to understand whether there are mutually attractive and commercially valuable activities to consider together.

DIVIDEND		CENTS PER SHARE	TOTAL AMOUNT $'000	DATE OF PAYMENT	FRANKED %	TAX RATE FOR FRANKING CREDIT
In respect of the previous 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%
In respect of the current financial year: 2018						
Interim	Ordinary shares	13.00	12,796	5 April 2018	7.5%	30%
Final	Ordinary shares	13.00	12,586	4 October 2018	25%	30%

We are committed to sound commercial practice, including making regular and recurring net operating cash flow, which in the 2018 financial year exceeded $50 million.

During the 2018 financial year we undertook this strategic work to make us future ready; the related costs have been fully covered in the 2018 financial year results.

We have systems and experience that are unique. We are redirecting our office floor look and feel to a more flexible work oriented environment, and we are focussed on how we better explain our value proposition to present and future clients so they can understand the benefits of becoming part of the Servcorp Community.

REVIEW OF OPERATIONS

Revenue and other income from ordinary activities for the twelve months ended 30 June 2018 was $314.40 million, down 4.6% from the twelve months ended 30 June 2017. During the year, the Australian dollar strengthened against all major currencies. In constant currency terms revenue decreased by 1.0% compared to the 2017 year.

Net profit before tax for the twelve months to 30 June 2018 was $32.05 million, down 33% from $48.19 million in the prior year.

Underlying net profit before tax, excluding one-off strategic initiative expenses of $5.80 million incurred during the year, was $37.9 million.

Net profit after tax for the twelve months to 30 June 2018 was $10.06 million, down from $40.71 million in the prior year.

Underlying net profit after tax for the 12 months to 30 June 2018 was $28.90 million. Following a USA Federal corporate tax rate reduction in December 2017 from 35% to 21%, and a review of the carried forward loss recoverability, the tax expense includes a one-off, non-cash $12.96 million adjustment relating to the USA deferred tax asset.

Cash and investment balances were $104.84 million at 30 June 2018 (30 June 2017: $118.75 million). Of this balance, $7.71 million has been pledged with banks as collateral for bank guarantees and facilities, leaving an unencumbered cash and investment balance of $97.13 million in the business as at 30 June 2018 (30 June 2017: $107.93 million).

The business generated strong net operating cash flows during the 2018 financial year of $50.08 million, down 8% compared to the 2017 financial year (2017: $54.35 million). Before tax payments, the business produced cash flows of $62.18 million (2017: $65.99 million).

Servcorp footprint

In the 2018 financial year, net capacity decreased by 136 offices. Six floors were closed during the year.

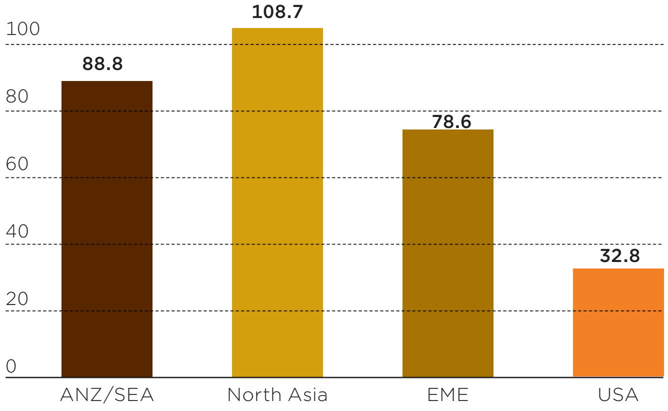
Our primary activity has been the refurbishment and modernisation of current floors with 40 floors completed in the 2018 financial year, creating our new coworking offering; this has also reduced the number of offices.

During the 2018 financial year we opened a new location at Mercury Tower in Bangkok and a second floor at Beirut Souks in Lebanon.

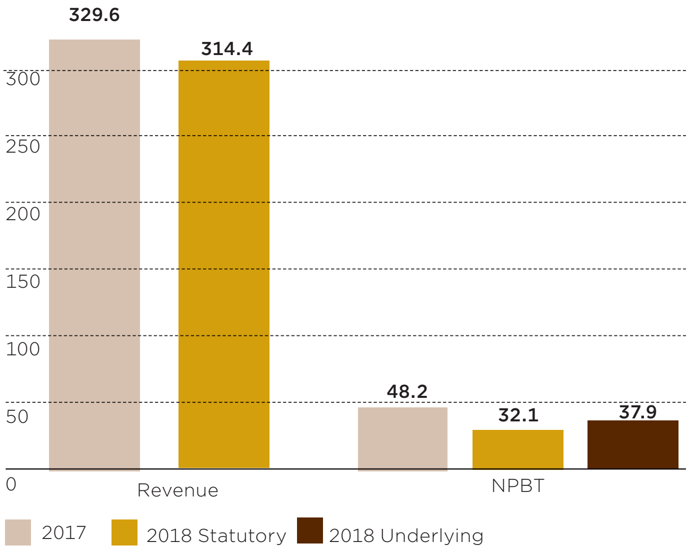
Occupancy of like for like floors open at 30 June 2018 was 72% (30 June 2017: 74%). All floor occupancy was 71%.

As at 30 June 2018, Servcorp operated 151 floors in 53 cities across 23 countries.

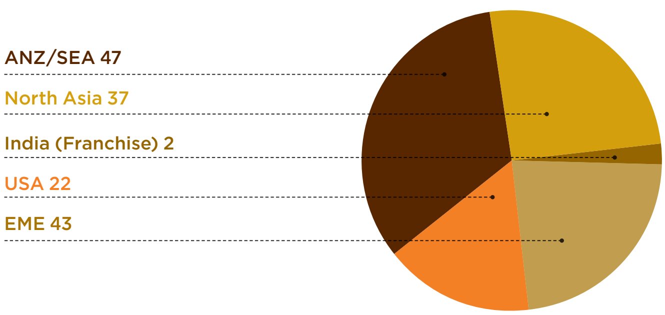
Revenue by Region ($ million)



Revenue and NPBT ($ million)



Floors by region - 30 June 2018

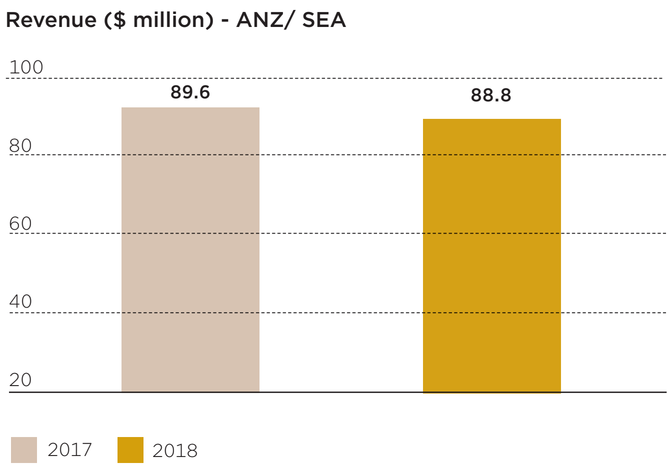


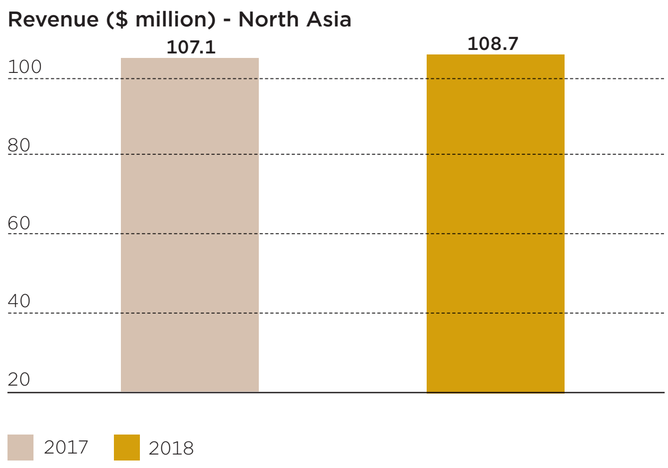
Australia, New Zealand and Southeast Asia

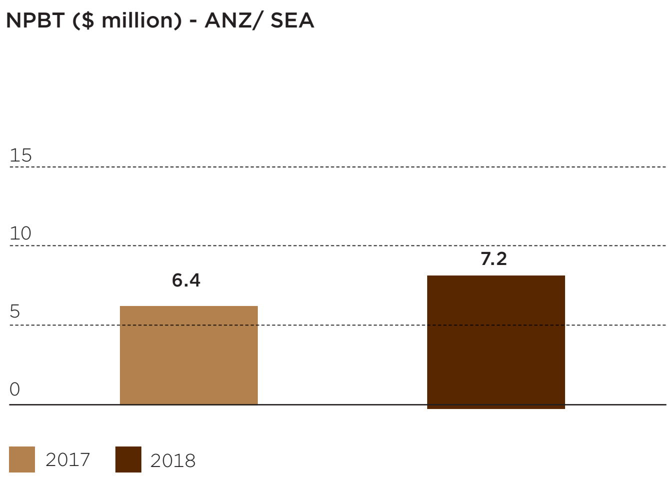
Net profit before tax performance in ANZ / SEA increased by 13%. Singapore and Indonesia underperformed while the balance of the region is healthy.

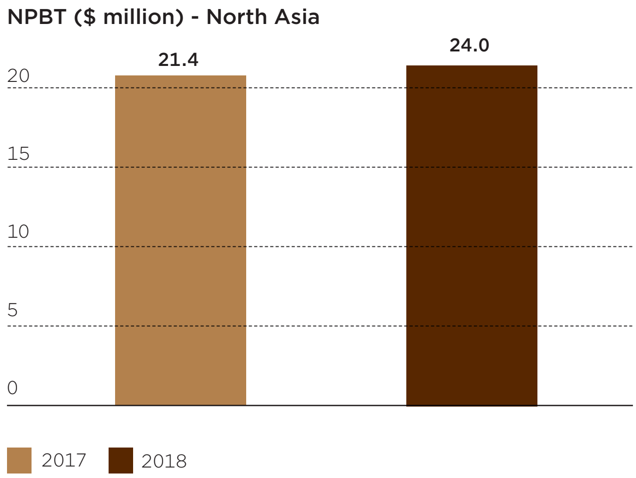
North Asia

North Asia as a whole produced an outstanding result.
Net profit before tax for the 2018 financial year was $24.0 million, up 12% from $21.4 million in the 2017 financial year.









Europe and the Middle East

Like for like floors in the Europe and Middle East segment produced a weaker result in the 2018 financial year, mainly due to tough markets in Saudi Arabia, partially offset by a solid UK result. The UAE also had a tough year given the oversupply of office space, particularly Abu Dhabi. Despite geopolitical difficulties, Qatar and Iran continue to perform and Turkey performed to expectations.

USA

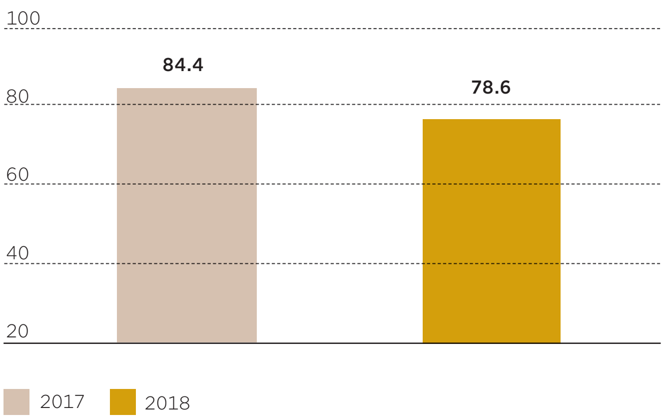
We continue to make slower progress than we expect in the USA as a result of several internal and external issues; in part our future direction will be assisted by the strategic initiatives work carried out in the 2018 financial year. We need to improve our on-the-ground operating effectiveness and to continue to improve market awareness and our ability to fully explain the Servcorp offering.

We are in the process of repositioning our USA activities including additions to the leadership group and a new look and feel to better align with the new market direction for the sector, now called flexible work space.

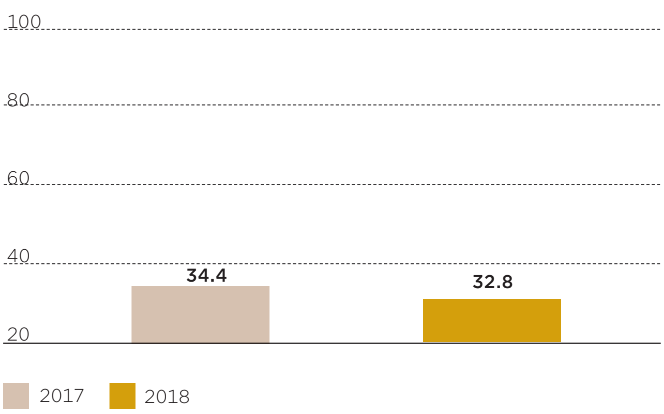
We believe we have unique and valuable capabilities and we need to leverage them for competitive advantage. At the same time we need to be patient as other competitors have limited focus on profitability at this time, this creates a challenging environment but one that we believe will normalise. We have confidence we can compete profitably with improved market awareness and understanding of our offering, and by leveraging our existing systems advantages and experience, but time and patience is required.

From a financial viewpoint the tax expense includes a one-off, non-cash $13.0 million adjustment relating to the USA deferred tax assets ($7.6 million USA tax rate changes and $5.4 million de-recognition of tax losses). This has adversely impacted Statutory net profit after tax. We need to carefully monitor the other USA asset carrying values, but we believe there is still significant potential in the USA.

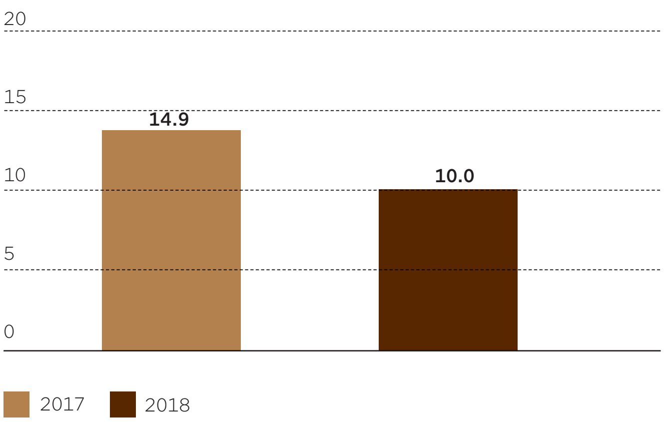
Revenue ($ million) - EME



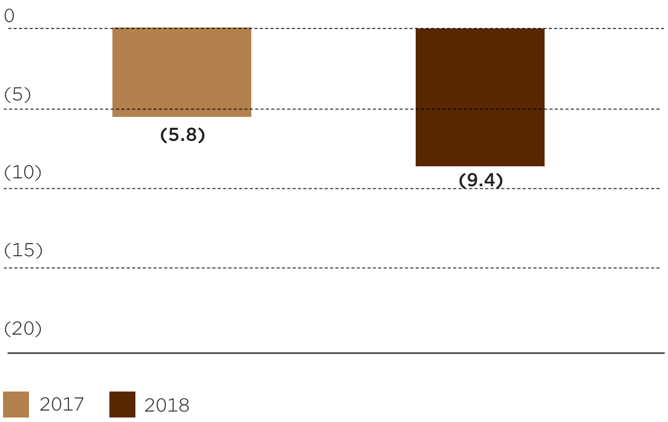
Revenue ($ million) - USA



NPBT ($ million) - EME



NPBT ($ million) - USA



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
Bangkok	Level 11, Mercury Tower	135	December 2017
Beirut	Level 3, Louis Vuitton Building	16	December 2017

EVENTS SUBSEQUENT TO BALANCE DATE

Dividend

On 22 August 2018 the Directors declared a 25% franked final dividend of 13.00 cents per share, payable on 4 October 2018.

The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 30 June 2018.

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 36 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 2018 is set out on pages 24 to 35 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 22nd day of August 2018.

Remuneration Report

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

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

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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.

31 EMPLOYEE SHARE SCHEME AND OTHER EQUITY INCENTIVE INFORMATION
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31 EMPLOYMENT AGREEMENTS
Provides details regarding the contractual arrangements between Servcorp and the executives whose remuneration details are disclosed.

32 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 2018.

34 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 2018.

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 2018, 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 our 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. The key initiatives implemented following this review, supported by independent external advice, which continue to be applied include:

- an STI opportunity for executive KMP with the targets aligned to the Consolidated Entity's global and region earnings;
- a global gateway net profit before tax is imposed whereby any global STI is not paid unless a predetermined threshold is achieved. The threshold has a percentage increase applied annually above a base financial year;
- 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 meets with shareholders and proxy advisors as required in relation to these matters;

The response from shareholders to the comprehensive review were 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 has not introduced any new executive remuneration components in the 2018 financial year. In recognition of the downgrade of profit expectations in 2018, the Board has reset the global gateway net profit before tax for the 2019 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 2019 and beyond.

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 2018.

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 Directors and other senior executives named in this report). Details of the KMP during the year are provided in the following table.

	TITLE	CHANGE IN 2018
NON-EXECUTIVE DIRECTORS		
Bruce Corlett	Chairman Member, Audit & Risk Committee Member, Remuneration Committee Chair, Nomination Committee	Full year Ceased as a member of the Audit & Risk Committee effective 15 December 2017
Rick Holliday-Smith	Director Chair, Audit & Risk Committee Member, Remuneration Committee Member, Nomination Committee	Full year Ceased as a member Nomination Committee effective 15 December 2017
The Hon. Mark Vaile	Director Member, Audit & Risk Committee Chair, Remuneration Committee Member, Nomination Committee	Full year
Wallis Graham	Director Member, Audit & Risk Committee Member, Nomination Committee	Appointed 3 October 2017 Appointed to Audit & Risk Committee effective 3 October 2017 Appointed to Nomination Committee effective 3 October 2017
EXECUTIVE DIRECTORS		
Alf Moufarrige	Chief Executive Officer	No change. Full year
Taine Moufarrige	Executive Director	No change. Full year
OTHER EXECUTIVE KMP		
Marcus Moufarrige	Chief Operating Officer	No change. Full year
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, all 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 5.

Use of remuneration consultants

During the 2018 financial year, no remuneration consultancy contracts were entered into by Servcorp.

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

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.

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 2018 are set out in the table on pages 32 and 33.

Minimum shareholding requirement

Servcorp does not have a minimum shareholding requirement for non-executive Directors. It is noted, however, that three 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 2018 financial year and changes from 2017 are set out in the table on pages 34 and 35.

Short term incentives

Short term incentives (STI) are awarded based on achievement against targets set at the beginning of each financial year. The basis of the STI scheme was established for the 2014 financial year and has been applied consistently in subsequent financial years. It is noted that Alf Moufarrige, the CEO, founder and major shareholder, has elected not to participate in the STI scheme.

Under the 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 2018 financial year ranged between $50,000 and $160,000. The target STI opportunity as a percentage of fixed remuneration ranged between 15.7% and 38.4% with the average being 22.4%. The target STI opportunity range for achieving target and percentage of fixed remuneration will be similar for the 2019 financial year.

STI targets will be set in advance each year and will be challenging. The STI targets for the 2018 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 36% and 50% of their total potential STI, with the majority being 50%.

A gateway consolidated net profit before tax, based on a 5% per annum compound increase over the 2017 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 pre-determinded growth over the 2018 financial year net profit before tax, will be applied for the 2019 financial year. The gateway consolidated net profit before tax is provided in the following table.

FINANCIAL YEAR ENDING 30 JUNE	2018 BASE	2019 GATEWAY
Consolidated net profit before tax ($ million)	32.0	38.0

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. Certain 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 $5.0 million executive KMP receive an extra STI ranging between $5,000 to $20,000. The total additional STI opportunity if all executive KMP outperform their region and global target is $220,000. In addition, the Board has discretion to reward executive KMP who achieve 'super outperform' results with additional STI payments.

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 18 to 22.

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

	FINANCIAL YEAR ENDED 30 JUNE				
MEASURE	**2014**	**2015**	**2016**	**2017**	**2018**
Total revenue ($million)	242	277	329	330	314
Net profit before tax ($million)	34.3	41.2	48.8	48.2	32.1
Net profit after tax ($million)	26.3	33.1	39.7	40.7	10.1
Basic earnings per share (cents)	26.8	33.7	40.4	41.4	10.2
Dividend per share (cents)	20.0	22.0	22.0	26.0	26.0
Share price as at 30 June ($)	$4.80	$5.84	$6.91	$5.70	$4.16
Offices	4,275	4,920	5,397	5,751	5,615
Number of locations	122	131	134	138	135

For the previous four financial years from 2014 to 2017, Servcorp had achieved significant increases in profitability; year on year net profit before tax increased on average 18.6% per annum. The 2018 financial year has been challenging, with net profit after tax decreasing to $10.1 million (after a one-off, non cash adjustment to income tax of $13.0 million).

Despite the lower net profit, underlying cash flows have remained strong, and the dividends paid with respect to the 2018 financial year have remained consistent. Servcorp's share price had increased considerably during the 2014, 2015, 2016 and the first half of the 2017 financial years. The decreased profit in 2017 and 2018 saw the share price also decrease, to levels similar to during the 2014 financial year. Despite a lower share price at 30 June 2018, there has been a satisfactory 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 2018 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, and in the Board's opinion achieved 'super outperform' profits, resulting in a payment in excess of their target opportunity. The variable pay opportunity for executive KMP paid out represents 34.1% of the maximum opportunity.

The individual 'at risk' rewards paid in the 2018 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%	-
Taine Moufarrige	-	0%	-
Liane Gorman	20,000	14.3%	-
Laudy Lahdo	-	0%	-
Olga Vlietstra	200,000	133.3%	-
Anton Clowes	30,000	35.7%	-

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 one have been employed for more than 15 years and (excluding the CEO) they have on average more than 17 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 17.

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 2017 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				POST-EMPLOYMENT BENEFITS	
		SALARY AND FEES $	CASH PROFIT-SHARING AND BONUSES $	NON-MONETARY BENEFITS $	OTHER SHORT TERM BENEFITS $	SUPER BENEFITS $	OTHER POST-EMPLOYMENT BENEFITS $
B Corlett Non–executive director	2018	159,818	–	–	–	15,182	–
	2017	159,818	–	–	–	15,182	–
R Holliday–Smith Non–executive director	2018	100,457	–	–	–	9,543	–
	2017	100,457	–	–	–	9,543	–
M Vaile Non–executive director	2018	91,325	–	–	–	8,675	–
	2017	91,325	–	–	–	8,675	–
W Graham (ii) Non–executive director	2018	68,494	–	–	–	6,506	–
Taine Moufarrige (iii) Executive director	2017	91,325	–	3,991	80,000	8,675	–
Aggregate	2018	420,094	–	–	–	39,906	–
	2017	442,925	–	3,991	80,000	42,075	–

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 W Graham was appointed as a non-executive director effective 3 October 2017.

iii An entity associated with T Moufarrige received special exertion consultancy fees for services performed between 1 March 2017 and 30 June 2017. T Moufarrige recommenced in an executive capacity effective 1 July 2017.

SHARE BASED PAYMENTS	TERMI-NATION BENEFITS	TOTAL PAYMENTS AND BENEFITS	SHORT TERM INCENTIVE GRANTS				LONG TERM INCENTIVE GRANTS		
EQUITY OPTIONS & SHARES			STI PAID IN CASH	STI ACCRUED AND NOT YET DUE	STI FORFEITED	MAXIMUM FUTURE VALUE OF VESTED STI	LTI PAID IN CASH	LTI ACCRUED AND NOT YET DUE	LTI FORFEITED
$	$	$	%	%	%	$	%	%	%
–	–	175,000	–	–	–	–	–	–	–
–	–	175,000	–	–	–	–	–	–	–
–	–	110,000	–	–	–	–	–	–	–
–	–	110,000	–	–	–	–	–	–	–
–	–	100,000	–	–	–	–	–	–	–
–	–	100,000	–	–	–	–	–	–	–
–	–	75,000	–	–	–	–	–	–	–
–	–	183,991	–	–	–	–	–	–	–
–	–	460,000	–	–	–	–	–	–	–
–	–	568,991	–	–	–	–	–	–	–

KEY MANAGEMENT PERSONNEL REMUNERATION

NAME AND TITLE	NOTES	YEAR	SHORT TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS	
			SALARY AND FEES	CASH PROFIT-SHARING AND BONUSES	NON-MONETARY BENEFITS	OTHER SHORT TERM BENEFITS	SUPER BENEFITS	OTHER POST-EMPLOYMENT BENEFITS
			$	$	$	$	$	$
A G Moufarrige Chief Executive Officer	(iv)	2018	446,663	–	41,701	–	28,500	–
		2017	439,276	–	88,692	–	28,500	–
M Moufarrige Chief Operating Officer		2018	670,000	–	284,129	–	63,650	–
		2017	670,000	–	14,732	–	63,650	–
Taine Moufarrige Executive director	(v)	2018	513,172	–	19,293	–	47,500	–
L Gorman GM Australia & NZ		2018	332,910	20,000	–	–	31,627	–
		2017	294,427	30,000	–	–	27,971	–
L Lahdo GM Middle East	(vi)	2018	367,255	–	27,622	–	30,605	–
		2017	352,883	–	23,658	–	29,480	–
O Vlietstra GM Japan	(vii)	2018	550,484	200,000	37,713	–	–	–
		2017	518,116	100,000	35,781	–	–	–
A Clowes Chief Financial Officer		2018	268,342	30,000	–	–	25,493	–
		2017	268,333	20,000	–	–	25,492	–
J Goodwyn VP/ GM USA	(viii)	2017	201,833	–	4,488	–	2,508	–
Aggregate		2018	3,148,826	250,000	410,458	–	227,375	–
		2017	2,744,868	150,000	167,351	–	177,601	–

Notes:

i Amounts disclosed as short-term cash profit-sharing and bonuses in the 2018 year represent STI paid in August 2018 based on 2018 financial year global and region targets.

ii 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.

iii Amounts disclosed as share based payments relate to Options issued on 2 May 2016. Details are set out on page 29 of this annual report.

iv The salary of A G Moufarrige includes a component paid in Yen. The increase in the 2018 year reflects the change in foreign currency exchange rate, not a change in salary in base currency terms.

v T Moufarrige recommenced in an executive capacity effective 1 July 2017.

vi The salary of L Lahdo is paid in AED. The increase in the 2018 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 increase in the 2018 year reflects the change in foreign currency exchange rate, not a change in salary in base currency terms.

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

SHARE BASED PAYMENTS EQUITY OPTIONS & SHARES	TERMI-NATION BENEFITS	TOTAL PAYMENTS AND BENEFITS	SHORT TERM INCENTIVE GRANTS				LONG TERM INCENTIVE GRANTS		
			STI PAID IN CASH	STI ACCRUED AND NOT YET DUE	STI FORFEITED	MAXIMUM FUTURE VALUE OF VESTED STI	LTI PAID IN CASH	LTI ACCRUED AND NOT YET DUE	LTI FORFEITED
$	$	$	%	%	%	$	%	%	%
–	–	516,864	–	–	–	–	–	–	–
–	–	556,468	–	–	–	–	–	–	–
31,056	–	1,048,835	–	–	100%	–	–	–	–
31,056	–	779,438	–	–	100%	–	–	–	–
–	–	579,965	–	–	100%	–	–	–	–
15,528	–	400,065	14.3%	–	85.7%	–	–	–	–
15,528	–	367,926	30.0%	–	70.0%	–	–	–	–
10,870	–	436,352	–	–	100%	–	–	–	–
10,870	–	416,891	–	–	100%	–	–	–	–
21,739	–	809,936	133.3%	–	50%	–	–	–	–
21,739	–	675,636	100%	–	50%	–	–	–	–
–	–	323,835	35.7%	–	64.3%	–	–	–	–
–	–	313,825	30.8%	–	69.2%	–	–	–	–
–	403,666	612,495	–	–	100%	–	–	–	–
79,193	–	4,115,852	34.1%	–	83.0%	–	–	–	–
79,193	403,666	3,722,679	27.3%	–	81.8%	–	–	–	–

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX: 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7021
www.deloitte.com.au

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

22 August 2018

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 2018, 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

DELOITTE TOUCHE TOHMATSU

S C 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 2018

	NOTE	CONSOLIDATED 2018 $'000	2017 $'000
Revenue	2	310,090	316,879
Other income	2	4,313	12,686
		314,403	329,565
Service expenses		(75,726)	(79,188)
Marketing expenses		(18,082)	(17,669)
Occupancy expenses		(160,276)	(160,048)
Rent - fixed annual impact	2	(816)	(1,512)
Strategic initiative expenses	2	(5,794)	-
Administrative expenses		(21,545)	(22,729)
Share of losses of joint venture		(93)	(195)
Borrowing expenses		(20)	(31)
Total expenses		(282,352)	(281,372)
Profit before income tax expense	2	32,051	48,193
Income tax expense	4	(21,989)	(7,482)
Profit for the year		10,062	40,711
OTHER COMPREHENSIVE INCOME			
Translation of foreign operations (item may be reclassified subsequently to profit or loss)		5,693	(11,021)
Other comprehensive income for the year (net of tax)		5,693	(11,021)
Total comprehensive income for the year		15,755	29,690
EARNINGS PER SHARE			
Basic and diluted earnings per share	6	$0.10	$0.41

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 2018

	NOTE	CONSOLIDATED 2018 $'000	2017 $'000
CURRENT ASSETS			
Cash and cash equivalents	7	93,444	104,376
Trade and other receivables	8	43,937	41,650
Other financial assets	9	11,981	14,942
Current tax assets	4	469	625
Prepayments and other assets	10	17,288	16,435
Total current assets		167,119	178,028
NON-CURRENT ASSETS			
Other financial assets	9	41,135	38,407
Property, plant and equipment	11	134,145	125,800
Deferred tax assets	4	24,466	33,620
Goodwill	12	14,805	14,805
Total non-current assets		214,551	212,632
Total assets		381,670	390,660
CURRENT LIABILITIES			
Trade and other payables	13	58,597	51,551
Other financial liabilities	14	31,477	31,005
Current tax liabilities	4	3,153	3,658
Provisions	16	7,610	6,948
Total current liabilities		100,837	93,162
NON-CURRENT LIABILITIES			
Trade and other payables	13	28,935	27,915
Other financial liabilities	14	-	561
Provisions	16	739	693
Deferred tax liabilities	4	994	1,154
Total non-current liabilities		30,668	30,323
Total liabilities		131,505	123,485
Net assets		250,165	267,175
EQUITY			
Contributed equity	17	151,594	154,122
Reserves		(11,306)	(12,354)
Retained earnings		109,877	125,407
Equity attributable to equity holders of the parent		250,165	267,175
Total equity		250,165	267,175

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 2018

	ISSUED CAPITAL $'000	SHARE BUY -BACK RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	EMPLOYEE EQUITY SETTLED BENEFITS RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000
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
Balance at 1 July 2017	154,122	-	(12,465)	111	125,407	267,175
Profit for the period	-	-	-	-	10,062	10,062
Translation of foreign operations (net of tax)	-	-	5,693	-	-	5,693
Total comprehensive gain for the period	-	-	5,693	-	10,062	15,755
Share based payment	-	-	-	88	-	88
Share buy back	(2,528)	(4,733)	-	-	-	(7,261)
Payment of dividends	-	-	-	-	(25,592)	(25,592)
Balance at 30 June 2018	151,594	(4,733)	(6,772)	199	109,877	250,165

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 2018

		CONSOLIDATED	
	NOTE	2018 $'000	2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		330,395	337,496
Payments to suppliers and employees		(271,521)	(275,225)
Franchise fees received		588	601
Income tax paid		(12,106)	(11,636)
Interest and other items of similar nature received		2,741	3,149
Interest and other costs of finance paid		(20)	(31)
Net operating cash flows	22(b)	50,077	54,354
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for variable rate bonds		(198)	(4,726)
Payments for strategic initiatives (i)		(5,187)	-
Payments for property, plant and equipment		(32,802)	(28,105)
Payments for lease deposits		(2,356)	(434)
Proceeds from sale of property, plant and equipment		6,048	46
Proceeds from sale of variable rate bonds		3,222	10,076
Proceeds from refund of lease deposits		952	187
Net investing cash flows		(30,321)	(22,956)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(25,592)	(23,624)
Share buy back		(7,277)	-
Borrowings		(587)	(557)
Landlord capital incentives received		89	3,699
Net financing cash flows		(33,367)	(20,482)
Net (decrease)/increase in cash and cash equivalents		(13,611)	10,916
Cash and cash equivalents at the beginning of the financial year		104,376	95,849
Effects of exchange rate changes on cash transactions in foreign currencies		2,679	(2,389)
Cash and cash equivalents at the end of the financial year	22(a)	93,444	104,376

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

Note:

i. Refer to Note 2 (ii), 2(iii) and Note 23.

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Notes to the Consolidated financial report
for the financial year ended 30 June 2018

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.

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 22 August 2018.

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 consolidated financial statements of the Group comprise the financial statements of the Company and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the Group when we determine that the Company has control over the entity. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Consolidated entity assess power by examining existing rights that give the Group the current ability to direct the relevant activities of the entity. The effect of all transactions between entities in the Group have been eliminated on consolidation.

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' and AASB15 'Revenue From Contracts With Customers'. Effective for annual reporting periods beginning 1 January 2018. No material 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 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

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

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 within 18 months to determine the present obligation in relation to floor closure costs including make good.

Tax losses and uncertain tax matters

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 Group operates across many tax jurisdictions. Application of tax law can be complex and requires judgement to assess risk and estimate outcomes. Judgements are required about the application of income tax legislation and its interaction with income tax accounting principles.

The Directors are currently in the process of assessing the future period impact of 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.

1. GENERAL (CONTINUED)

a. Basis of consolidation (continued)

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

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	
	2018 $'000	2017 $'000
A. REVENUE		
Revenue from continuing operations consisted of the following:		
Revenue from the rendering of services	309,502	316,277
Franchise fee income	588	602
	310,090	316,879
B. OTHER INCOME		
Interest income - bank deposits	2,707	2,942
Net foreign exchange gain (realised and unrealised)	1,864	6,067
(Loss)/ gain on asset disposal	(896)	3,163
Other income	638	514
Total other income	4,313	12,686
C. EXPENSES		
Rent - fixed annual impact (i)	816	1,512
Expenses relating to strategic initiatives (ii) & (iii)	5,794	-
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	20	31
Depreciation of leasehold improvements	17,652	16,691
Depreciation of property, plant and equipment	7,242	6,184
Loss/ (gain) on disposal of property, plant and equipment	928	(2,205)
Gain on disposal of financial assets	(32)	(958)
Decrease in fair value of financial assets classified as fair value through the profit and loss	333	4,180
Bad debts written off	1,838	1,580
Operating lease payments	134,702	134,804

Notes:

i The rent fixed annual impact represents the straight-lining of fixed annual increases ranging between 0% and 4.25% (2017: 3.0% and 4.25% per annum) in accordance with AASB117.

ii. During the financial year Servcorp initiated an investment review of its operations in Europe and the Middle East to accelerate growth pathways to take advantage of the expansion in the demand for shared offices and to unlock more of the inherent value in its business and technology platform. The outcome of the strategic review will benefit Servcorp in the long run, however a decision was made to not proceed with the identified alternatives at this time. These expenses related to the strategic initiatives undertaken.

iii. The net total of $5.8 million is after the reimbursement of $1.7 million by Servcorp's Chief Executive Officer, Mr A.G. Moufarrige, to the Consolidated Entity for expenses incurred above a pre-determined amount. The tax effect of the $1.7 million reimbursement is nil as the expenses to which the reimbursement relates have been incurred in the United Arab Emirates where the tax rate is 0%. Refer also to Note 5 and 23.

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						
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%
2018						
Final	Fully paid ordinary shares	13.00	12,796	5 Oct 2017	30%	50%
Interim	Fully paid ordinary shares	13.00	12,796	5 Apr 2018	30%	7.50%
UNRECOGNISED AMOUNTS						
Since the end of the financial year, the directors have declared the following dividend:						
Final	Fully paid ordinary shares	13.00	12,586	4 Oct 2018	30%	25%

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.

	2018 $'000	2017 $'000
DIVIDEND FRANKING ACCOUNT		
30% franking credit available	1,618	430
Impact on franking account balance of dividends not recognised	1,349	2,742

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	
	2018 $'000	2017 $'000
A. INCOME TAX RECOGNISED IN THE INCOME STATEMENT		
Tax expense comprises:		
Current tax expense	12,974	10,351
(Over)/ under provision in prior years - current tax	(1,393)	(4,414)
Under provision in prior years - deferred tax	256	653
Deferred tax expense relating to change in tax rate	7,560	-
Deferred tax expense relating to derecognition of tax losses	5,405	-
Deferred tax income relating to the origination and reversal of temporary differences and previously unrecognised tax losses	(2,813)	892
Income tax expense	21,989	7,482
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	32,051	48,193
Income tax expense calculated at 30%	9,615	14,458
Deductible local taxes	(642)	(581)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,029)	(2,920)
Other deductible items	226	194
Tax losses of controlled entities recovered	-	(1,200)
Effect of change in tax rates (i)	7,560	-
Derecognition of previously recognised tax losses	5,405	-
Income tax over provision in prior years	(1,328)	(3,761)
Unused tax losses and tax offsets not recognised as deferred tax assets	2,182	1,292
Income tax expense	21,989	7,482

Note:

(i) On 22 December 2017, the US enacted the Tax Cuts and Jobs Act (the "TCJA") The TCJA reduces the corporate tax rate from 35% to 21%. The consequence of this change is a downward remeasurement of deferred tax assets of the USA operations. This is based on the Group's best estimates, assumptions and interpretation of the TCJA.

The tax rate used in the above reconciliation is the Australian corporate tax rate of 30% (2017: 30%).

	2018	2017
B. CURRENT TAX ASSETS AND LIABILITIES		
Current tax assets		
Tax refunds receivable	469	625
Current tax payables		
Income tax attributable to:		
Parent entity	184	(1,313)
Subsidiaries	2,969	4,971
	3,153	3,658

4. INCOME TAXES (CONTINUED)

	CONSOLIDATED	
	2018 $'000	2017 $'000
C. DEFERRED TAX BALANCES		
Deferred tax assets comprises:		
Tax losses - revenue	5,338	13,859
Temporary differences	19,128	19,761
	24,466	33,620
Deferred tax liabilities comprises:		
Temporary differences	(994)	(1,154)
Net deferred tax assets	23,472	32,466
The gross movement of the deferred tax accounts are as follows:		
Balance at the beginning of the financial year	32,466	34,044
Change in tax rate	(7,560)	-
Tax loss derecognition	(5,405)	-
Movements in foreign exchange rates	1,412	(853)
Statement of comprehensive income charge/ (credit)	2,559	(725)
Balance at the end of the financial year	23,472	32,466
Deferred tax assets		
Movements in temporary differences:		
Accruals not currently deductible	336	485
Doubtful debts	14	(41)
Depreciable and amortisable assets	1,087	(976)
Tax losses	(3,116)	437
Foreign exchange	439	(1,932)
Deferred rent incentive	(1,626)	548
Change in tax rate	(7,560)	-
Tax loss derecognition	(5,405)	-
Other	5,419	772
Deferred tax asset movements	(10,412)	(707)
Balance at the beginning of the financial year	33,620	35,231
Change in tax rate	(7,560)	-
Tax loss derecognition	(5,405)	-
Movements in foreign exchange rates	1,258	(904)
Statement of comprehensive income charge/ (credit)	2,553	(707)
Balance at the end of the financial year	24,466	33,620

4. INCOME TAXES (CONTINUED)

	CONSOLIDATED	
	2018 $'000	2017 $'000
C. DEFERRED TAX BALANCES (CONTINUED)		
Deferred tax liabilities		
Movements in temporary differences:		
Depreciable and amortisable assets	(3)	(14)
Accruals and provisions not currently deductible	-	(13)
Other	(161)	(4)
Deferred tax liabilities	(164)	(31)
Balance at the beginning of the financial year	1,154	1,187
Movements in foreign exchange rates	2	-
Statement of comprehensive income (credit)	(162)	(33)
Balance at the end of the financial year	994	1,154
D. UNRECOGNISED DEFERRED TAX BALANCES		
The following deferred tax assets have not been brought to account as assets:		
Temporary differences	16	15
Tax losses - capital	2,086	2,086
Tax losses - revenue	11,728	2,074
	13,830	4,175

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 Consolidated Entity's information reported to the Board of Directors is based on each segment manager directly responsible or 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 'Operating Segments'.

The Consolidated Entity's reportable operating segments under AASB 8 'Operating Segments' are presented below. The accounting policies of the reportable operating segments are the same as the Consolidated Entity's accounting policies.

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

		SEGMENT REVENUE & OTHER INCOME		SEGMENT PROFIT/ (LOSS)	
	NOTE	2018 $'000	2017 $'000	2018 $'000	2017 $'000
CONTINUING OPERATIONS					
Australia, New Zealand and Southeast Asia (i)		88,809	89,565	7,189	6,365
USA (i)		32,751	34,419	(9,394)	(5,843)
Europe and Middle East		78,607	84,444	10,039	14,856
North Asia		108,663	107,089	23,991	21,384
Other		673	760	(484)	26
		309,503	316,277	31,341	36,788
Finance costs				(20)	(31)
Interest revenue		2,707	2,942	2,707	2,942
Foreign exchange gains		1,864	6,067	1,864	6,067
Centralised unrecovered head office overheads				3,077	918
Franchise fee income		588	602	588	602
Rent - fixed rent increase (ii)	2			(816)	(1,512)
Share of losses of joint venture				(93)	(195)
(Loss)/ gain on asset disposal		(897)	3,163	(897)	3,163
Strategic initiatives (iv)			-	(5,794)	-
Unallocated		638	514	94	(549)
Profit before tax				32,051	48,193
Income tax expense (iii)				(21,989)	(7,482)
Consolidated segment revenue and profit for the period		314,403	329,565	10,062	40,711

The revenue reported above represents revenue generated from external customers. Intersegment sales were eliminated in full. For the 12 months ended 30 June 2018, the Consolidated Entity's Virtual Office revenue and Serviced Office revenue were $82.8 million and $226.7 million repectively (2017: $83.2 million and $233.1 million, respectively).

Note:
i. During December 2016 $2.5 million 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).

iii. On 22 December 2017, the US enacted the Tax Cuts and Jobs Act (the "TCJA") The TCJA reduces the corporate tax rate from 35% to 21%. The consequence of this change is a downward remeasurement of deferred tax assets of the USA operations. This is based on the Consolidaed Entity's best estimates, assumptions and interpretation of the TCJA.

iv. The net total of $5.8 million is after the reimbursement of $1.7 million by Servcorp's Chief Executive Officer, Mr A.G. Moufarrige, to the Consolidated Entity for expenses incurred above a pre-determined amount. The tax effect of the $1.7 million reimbursement is nil as the expenses to which the reimbursement relates have been incurred in the United Arab Emirates where the tax rate is 0%. Refer also to Note 2 and 23.

6. EARNINGS PER SHARE

	CONSOLIDATED	
	2018 $'000	2017 $'000
EARNINGS RECONCILIATION		
Net profit	10,062	40,711
Earnings used in the calculation of basic and diluted EPS	10,062	40,711

	NO.	NO.
Weighted average number of ordinary shares used in the calculation of basic EPS	98,247,304	98,432,275
Weighted average number of ordinary shares used in the calculation of diluted EPS	98,247,304	98,432,275
Basic earnings per share	$0.10	$0.41
Diluted earnings per share	$0.10	$0.41

7. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2018 $'000	2017 $'000
Cash (i)	34,118	37,679
Bank short term deposits (i), (ii)	59,326	66,697
	93,444	104,376

Notes:

i Servcorp's unencumbered cash and investment balance is $97.1 million as at 30 June 2018 (2017: $107.9 million).

ii Bank short term deposits mature within an average of 117 days (2017: 106 days). These deposits and the interest earning portion of the cash balance earn interest at a weighted average rate of 2.09% (2017: 2.55%).

8. TRADE AND OTHER RECEIVABLES

CURRENT		
At amortised cost		
Trade receivables (i)	35,253	31,207
Less: allowance for doubtful debts	(1,042)	(1,139)
Other debtors	9,726	11,582
	43,937	41,650

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 2018 the Directors believe no further provisions are required.

9. OTHER FINANCIAL ASSETS

	CONSOLIDATED	
	2018 $'000	2017 $'000
CURRENT		
At fair value through profit or loss		
Investment in bank hybrid variable rate securities (i)	11,392	14,378
At amortised cost		
Lease deposits	589	564
	11,981	14,942
NON-CURRENT		
At fair value through profit or loss		
Forward foreign currency exchange contracts	128	454
At amortised cost		
Lease deposits	40,312	37,188
Other	695	765
	41,135	38,407

Notes:

i Australia has $7.7 million in securities which is encumbered (2017: $9.9 million).

10. PREPAYMENTS AND OTHER ASSETS

CURRENT		
Prepayments	14,275	14,499
Other	3,013	1,936
	17,288	16,435

11. PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED

	LAND AND BUILDINGS AT COST $'000	LEASE-HOLD IMPROVE-MENTS OWNED AT COST $'000	LEASE-HOLD IMPROVE-MENTS LEASED AT COST $'000	OFFICE FURNITURE & FITTINGS OWNED AT COST $'000	OFFICE FURNITURE & FITTINGS LEASED AT COST $'000	OFFICE EQUIP-MENT & SOFT-WARE OWNED AT COST $'000	OFFICE EQUIP-MENT LEASED AT COST $'000	MOTOR VEHICLES OWNED AT COST $'000	WIP AT COST $'000	TOTAL $'000
GROSS CARRYING AMOUNTS										
Balance at 30 June 2017	7,738	215,445	1,115	31,734	129	45,683	112	797	-	302,753
Additions	-	13,341	-	4,504	-	9,800	-	1	5,156	32,802
Disposals	-	(3,495)	-	(504)	-	(584)	-	(354)	-	(4,937)
Effect of foreign currency exchange differences	429	7,215	59	1,108	7	(371)	6	20	9	8,482
Balance at 30 June 2018	8,167	232,506	1,174	36,842	136	54,528	118	464	5,165	339,100
ACCUMULATED DEPRECIATION										
Balance at 30 June 2017	373	115,903	1,069	20,553	129	38,227	112	587	-	176,953
Depreciation expense	142	17,652	-	2,870	-	4,175	-	55	-	24,894
Disposals	(15)	(2,526)	-	(381)	-	(494)	-	(354)	-	(3,770)
Effect of foreign currency exchange differences	35	4,908	59	841	7	1,010	6	12	-	6,878
Balance at 30 June 2018	535	135,937	1,128	23,883	136	42,918	118	300	-	204,955
NET BOOK VALUE										
Balance at 30 June 2018	7,632	96,569	46	12,959	-	11,610	-	164	5,165	134,145
Balance at 30 June 2017	7,365	99,542	46	11,181	–	7,456	–	210	-	125,800

This note is to be read in conjunction with Note 1 (m) Significant accounting policies.

12. GOODWILL

ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS
The following twenty two countries are groups of 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 group of cash-generating unit as at 30 June 2018 was as follows:

	CONSOLIDATED	
	2018 $'000	2017 $'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 group of 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 2018, the post tax discount rate applied to the above countries, inclusive of country risk premium, was as follows: Japan 10.9%, France 10.7%, Australia 10.1%, New Zealand 10.1%, Singapore 10.1%, Thailand 11.9% and China 10.9% (2017: Japan 11.2%, France 10.9%, Australia 10.2%, New Zealand 10.2%, Singapore 10.2% Thailand 12.5% and China 11.1%). Growth rates ranging between 0.4% and 2.1% (2017: 0.17% and 1.9%) have been applied to extrapolate the cash flow projections for each cash-generating unit.

13. TRADE AND OTHER PAYABLES

CURRENT		
At amortised cost		
Trade creditors	10,530	6,463
Deferred income	23,697	21,468
Deferred lease incentive	8,193	9,806
Other creditors and accruals	16,177	13,814
	58,597	51,551
NON-CURRENT		
At amortised cost		
Deferred lease incentive	28,935	27,915
	28,935	27,915

14. OTHER FINANCIAL LIABILITIES

	CONSOLIDATED	
	2018 $'000	2017 $'000
CURRENT		
At amortised cost		
Security deposits	30,956	30,446
External borrowings (i)	521	559
	31,477	31,005
NON-CURRENT		
At amortised cost		
External borrowings (i)	-	561
	-	561

Notes:

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

15. FINANCING ARRANGEMENTS

The Consolidated Entity has access to the following lines of credit:

	2018 $'000	2017 $'000
TOTAL FACILITIES AVAILABLE		
Bank guarantees (i)	37,000	38,974
Bank overdrafts and loans (ii)	3,992	4,605
Bill acceptance / payroll / other facilities (iii)	4,150	4,150
	45,142	47,729
FACILITIES UTILISED AT BALANCE SHEET DATE		
Bank guarantees (i)	28,882	30,533
Bank overdrafts and loans (ii)	293	836
	29,175	31,369
FACILITIES NOT UTILISED AT BALANCE SHEET DATE		
Bank guarantees (i)	8,118	8,441
Bank overdrafts and loans (ii)	3,699	3,769
Bill acceptance / payroll / other facilities (iii)	4,150	4,150
	15,967	16,360

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 2018 $'000	2017 $'000
CURRENT		
Employee benefits (i)	7,456	6,746
Other	154	202
	7,610	6,948
NON-CURRENT		
Employee benefits	739	693
	739	693

Notes:

i The current provision for employee benefits includes $7.2 million of annual leave and vested long service leave entitlements accrued (2017: $5.8 million).

17. CONTRIBUTED EQUITY

	2018 $'000	2017 $'000
Fully paid ordinary shares 96,817,888 (2017: 98,432,275)	151,594	154,122
MOVEMENTS IN ISSUED CAPITAL		
Balance at the beginning of the financial year	154,122	154,122
Share buy-back 1,614,387 (2017: Nil) (i)	(7,261)	-
Share buy-back reserve (i)	4,733	-
Balance at the end of the financial year	151,594	154,122

Note:

(i) During the financial year Servcorp established an on-market buy-back program which enabled the purchase of 1,614,387 shares at an average price of $4.498.

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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Pre tax gain / (loss)				
AUD/ USD +6%(2017: +6%)	(1,750)	(1,408)	845	952
AUD/ USD -6% (2017: -6%)	1,957	1,627	(945)	(1,080)
AUD/ JPY +6% (2017: +9%)	2,200	2,644	1,036	1,474
AUD/ JPY -6% (2017: -9%)	(1,240)	(2,154)	(1,163)	(1,774)
AUD/ EUR +3% (2017: +4%)	142	113	162	244
AUD/ EUR -3% (2017: -4%)	(152)	(122)	(172)	(265)
AUD/ RMB +7% (2017: +7%)	(187)	(244)	8	9
AUD/ RMB -7% (2017: -7%)	209	282	(9)	(10)
AUD/ SGD +5% (2017: +5%)	(710)	(688)	-	-
AUD/ SGD -5% (2017: -5%)	783	767	-	-

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 2018. These are level 2 fair value measurements derived from inputs as defined in Note 18(e).

	AVERAGE EXCHANGE RATE		FOREIGN CURRENCY		FAIR VALUE	
	2018	2017	2018 MILLION	2017 MILLION	2018 $'000	2017 $'000
Outstanding contracts						
CONSOLIDATED						
Sell JPY						
Not later than one year	78.11	81.99	150	750	39	374
Later than one year and not later than five years	76.78	77.24	750	350	89	189
Sell USD						
Not later than one year	-	0.8458	-	1	-	(119)
Later than one year and not later than five years	-	-	-	-	-	-
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	
	2018 $'000	2017 $'000
Pre tax gain/ (loss)		
AUD balances		
125 basis point increase	655	711
125 basis point decrease	(607)	(702)
Other balances		
125 basis point increase	167	206
125 basis point decrease	(94)	(147)

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							
2018							
NON-INTEREST BEARING							
Receivables	43,937	-	-	-	-	43,937	
Lease deposits	144	-	14,015	15,692	6,565	36,416	
Forward foreign currency exchange contracts	-	1,000	1,917	9,767	-	12,684	
INTEREST BEARING							
Cash and cash equivalents	34,118	-	-	-	-	34,118	2.06%
Bank short term deposits	32,095	5,585	26,329	-	-	64,009	2.25%
Variable rate securities	11,392	-	-	-	-	11,392	5.82%
	121,686	6,585	42,261	25,459	6,565	202,556	
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	

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							
2018							
NON–INTEREST BEARING							
Payables	10,530	16,408	-	-	-	26,938	
Security deposits	-	-	30,574	-	-	30,574	
Forward foreign currency exchange contracts	-	998	1,831	9,154	-	11,983	
INTEREST BEARING							
Bank loans (i)	6	159	157	-	-	322	2.42%
	10,536	17,565	32,562	9,154	-	69,817	
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	2.42%
	7,689	16,698	39,615	4,365	-	68,367	

Notes:

i Fixed interest rate instruments.

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 Board of 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 2018			
Bank hybrid variable rate securities	11,392	-	-
Forward foreign currency exchange contracts	-	128	-
	11,392	128	-
30 JUNE 2017			
Bank hybrid variable rate securities	14,378	-	–
Forward foreign currency exchange contracts	-	454	–
	14,378	454	–

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 2018 $'000	FAIR VALUE AS AT 30 JUNE 2017 $'000	FAIR VALUE HIERACHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)
Bank hybrid variable rate securities	11,392	14,378	1	Quoted prices in an active market
Forward foreign currency exchange contracts	128	454	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 2018 are as follows:

	CONSOLIDATED	
	2018 $'000	2017 $'000
Employer contributions	2,005	1,849

As at 30 June 2018, there were no outstanding employer contributions payable to other funds.

20. COMMITMENTS FOR EXPENDITURE

CAPITAL EXPENDITURE COMMITMENTS - PROPERTY, PLANT AND EQUIPMENT		
Committed but not provided for and payable:		
Not later than one year (i)	30,628	7,176
Later than one year but not later than five years	-	-
Later than five years	-	-
	30,628	7,176
NON-CANCELLABLE OPERATING LEASE COMMITMENTS		
Future operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	133,608	131,942
Later than one year but not later than five years	305,475	303,192
Later than five years	117,567	151,825
	556,650	586,959

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.

Notes:

i. The refurbishment and modernisation of current floors to create coworking space totals $7.5 million (2017: Nil). New floors total $23.1 million (2017: 7.2 million).

21. SUBSIDIARIES

Servcorp has interests in subsidiary companies in the following countries.

COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	NUMBER OF SUBSIDIARIES	
	2018	2017
Australia	47	47
Bahrain	1	1
Belgium	1	1
China and Hong Kong	8	8
France	2	2
Germany	1	-
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	4	3
United Kingdom	5	3
United States of America	16	17

Movements in the number of subsidiaries are due to the formation and deregistration of subsidiary entities. Refer to Note 1 to the Consolidated financial report for more details on control.

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	
		2018 %	2017 %
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 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	
	2018 $'000	2017 $'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	34,118	37,679
Short term deposits	59,326	66,697
Cash and cash equivalents	93,444	104,376
B. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	10,062	40,711
Add/ (less) non-cash items:		
Movements in provisions	(708)	(286)
Deferred tax expense relating to change in tax rate	7,560	-
Deferred tax expense relating to derecognition of tax losses	5,405	-
Depreciation of non-current assets	24,894	22,875
Share of losses of joint venture	(93)	(195)
Loss/ (Gain) on disposal of non-current assets	928	(2,205)
Loss from financial assets	(32)	(959)
Decrease in current tax liability	349	4,968
(Decrease) in deferred tax balances	(8,994)	(1,578)
Unrealised foreign exchange loss/ (gain)	5,303	(5,646)
(Increase) in deferred lease incentives	(603)	(4,217)
Changes in net assets and liabilities during the financial period:		
Decrease in prepayments	224	2,020
Increase in trade debtors and other receivables (i)	(2,287)	(4,329)
Increase in current assets	(1,102)	(788)
Increase in deferred income	2,229	1,555
Increase in client security deposits	510	2,185
Increase in accounts payable	6,432	243
Net cash provided from operating activities	50,077	54,354

Notes:

i Excludes non-operating receivable of Nil (2017: $5.7 million).

23. RELATED PARTY DISCLOSURES

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.

During the year Servcorp undertook certain strategic initiatives in the Middle East and Europe to accelerate growth pathways to take advantage of the expansion in the demand for shared offices and to unlock more of the inherent value in its business and technology platform. In order to provide cost-certainty, Mr A.G. Moufarrige undertook in February 2018 to reimburse expenses incurred by the Group in excess of a pre-determined amount. Accordingly $1.7 million was reimbursed by Mr A.G. Moufarrige. The $1.7 million was received in cash on 30 June 2018. Refer also to Note 2 and 5.

Mr A G Moufarrige and Mr R Holliday-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 2017 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 and Brisbane. From time to time Nualight and LEA also provide 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.

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 the arrangement 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.

Mrs W Graham has an involvement with Energy Capital Partners, a US-based private equity firm. Energy Capital Partners is a client of Servcorp in Sydney. Mrs W Graham did not have any involvement in negotiation of the arrangement with Energy Capital Partners, which are at arm's length terms.

23. RELATED PARTY DISCLOSURES (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	2018 $	2017 $
A G Moufarrige	Tekfon Pty Ltd	Premises rental	90,964	89,326
A G Moufarrige	Enideb Pty Ltd	Franchisee	745,357	741,346
A G Moufarrige, T Moufarrige	Sovori Pty Ltd	Strategic initiatives Reimbursements	1,700,000 210,605	- 90,431
A G Moufarrige, R Holliday–Smith	Thru, Inc.	IT services	-	71,229
T Moufarrige	Nualight AUSNZ Pty Ltd and	Client	2,780	7,779
	Light Energy Australia Pty Ltd	Supplier	5,781	86,239
T Moufarrige	Spigoli Pty Ltd	Client	6,506	8,812
T Moufarrige	Taine Moufarrige	Reimbursements	26,845	19,307
B Corlett	Bruce Corlett	Client	79,340	45,535
B Corlett	TDM Asset Management Pty Ltd	Client	10,005	8,812
R Holliday–Smith	ASX Operations Pty Ltd	Client	515,549	419,057
W Graham	Energy Capital Partners	Client	1,138	-

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

Current receivable/ (payable)		
Tekfon Pty Ltd	-	-
Enideb Pty Ltd	45,162	50,193
Sovori Pty Ltd	-	21,995
Nualight AUSNZ Pty Ltd and Light Energy Australia Pty Ltd	69	2,181
Spigoli Pty Ltd	566	582
Taine Moufarrige	30,708	19,307
Bruce Corlett	6,136	3,937
TDM Asset Management Pty Ltd	787	771
ASX Operations Pty Ltd	44,898	37,866
Energy Capital Partners	205	-

24. PARENT ENTITY DISCLOSURES

	THE COMPANY 2018 $'000	2017 $'000
FINANCIAL POSITION		
ASSETS		
Current assets	149,318	213,907
Non-current assets	22,779	21,436
Total assets	172,097	235,343
LIABILITIES		
Current liabilities	8,968	66,030
Total liabilities	8,968	66,030
EQUITY		
Issued capital	146,861	154,122
Retained earnings	16,268	15,191
Total equity	163,129	169,313
FINANCIAL PERFORMANCE		
Profit for the year	26,595	19,833
Total comprehensive income	26,595	19,833

As at 30 June 2018:

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 million interchangeable facility for general corporate purposes. The liability under the deed by and between the Australian and New Zealand companies is limited to $52 million. As at 30 June 2018 the fair value of these commitments was Nil (2017: 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 2018 $	2017 $
A. AUDITOR OF THE PARENT ENTITY		
(Deloitte Touche Tohmatsu Australia (DTT))		
Audit and review of financial reports	631,482	603,947
Other services - tax	103,843	26,250
Strategic initiatives - tax (i)	334,314	-
Strategic initiatives - advisory (i)	80,000	-
	1,149,639	630,197
B. OTHER AUDITORS		
(DTT International Associates)		
Audit and review of financial reports	682,120	693,140
Other services - tax	116,181	96,239
Other services - financial statements preparation	220,726	81,927
Strategic initiatives - tax (i)	613,132	-
Strategic initiatives - advisory (i)	804,194	-
Strategic initiatives - audit (i)	737,496	-
	3,173,849	871,306
	4,323,488	1,501,503

The auditor of Servcorp Limited is Deloitte Touche Tohmatsu.

Notes:

i During the financial year Servcorp initiated an investment review of its operations in Europe and the Middle East to accelerate growth pathways to take advantage of the expansion in the demand for shared offices and to unlock more of the inherent value in its business and technology platform. The outcome of the strategic review will benefit Servcorp in the long run, however a decision was made to not proceed with the identified alternatives at this time. These expenses related to the strategic initiatives undertaken.

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 22 August 2018 the Directors declared a final dividend of 13.00 cents per share, franked to 25%, payable on 4 October 2018.

The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 30 June 2018.

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 37 to 71 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*.

Siged 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 22nd day of August 2018.

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX: 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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 "Entity"), and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 declaration by directors.

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 2018 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 directors of the Entity, 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 of 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.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter

Accounting for lease agreements as tenant
 	
Refer to Notes 2c, 13 and 16
 	
The Group frequently enters into agreements for the leasing of new floors or renegotiates/extends 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, rent review clauses, make-good provisions or other relevant 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 assessing new, renewed and/or amended lease agreements;
	    o identifying terms that may give rise to specific accounting implications;
	    o independently calculating the rent expense and other associated balances over the life of the agreement and comparing results to management's calculation for those leases selected for detailed analysis;
	- inquiring of management and performing other procedures, to identify changes to existing leases. On a sample basis testing existing leases to determine whether any changes had been made to the agreements and as a result the associated accounting;
	- evaluating management's assessment on floors to be closed in the coming 18 months, and the appropriateness of the Group's accounting policy for recording any make-good provisions; and
	- assessing the appropriateness of the disclosures in the financial statements.

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): '2018 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', 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 '2018 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.

Responsibilities of the Directors for the Financial Report

The directors of the Entity 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 directors.

- 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's audit. We remain solely responsible for our audit opinion.

Deloitte.

We communicate with 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 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 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 on pages 24 to 35 of the Director's Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Servcorp Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of Servcorp Limited 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

S C Gustafson
Partner
Chartered Accountants
Sydney, 22 August 2018